

COMMITTEE HEARING  
BEFORE THE  
CALIFORNIA ENERGY RESOURCES CONSERVATION  
AND DEVELOPMENT COMMISSION

In the Matter of: )  
 )  
Integrated Energy Policy Report ) Docket No.  
 ) 02-IEP-01  
\_\_\_\_\_ )

BAKERSFIELD COUNTY ADMINISTRATION BUILDING  
1115 TRUXTUN AVENUE  
BOARD OF SUPERVISORS ROOM  
BAKERSFIELD, CALIFORNIA

FRIDAY, OCTOBER 10, 2003

9:55 A.M.

Reported by:  
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PETERS SHORTHAND REPORTING CORPORATION (916) 362-2345

COMMISSIONERS PRESENT

James Boyd, Presiding Member

John Geesman, Commissioner

ADVISORS

Michael Smith

Melissa Jones

Scott Tomashefsky

STAFF PRESENT

Thom Kelly, Assistant Executive Director

Karen Griffin, Program Manager

ALSO PRESENT

Joe Sparano  
Western States Petroleum Association

John M. Allen  
Oxy of Elk Hills  
Occidental Petroleum Corporation

E.J. (Gene) Voiland  
AERA Energy, LLC

Les Clark  
Independent Oil Producers Agency

Neil E. Burgess  
Kern River Cogeneration Company

Harold M. "Hal" Romanowitz  
Oak Creek Energy Systems, Inc.

Curtis L. Kebler  
Reliant Energy

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## P R O C E E D I N G S

9:55 a.m.

PRESIDING MEMBER BOYD: Good morning.

Welcome to our hearing, a hearing of the Energy Commission on the draft of the Energy Commission's Integrated Energy Policy Report, which I will refer to by the acronym IEPR, because I'm tired of saying Integrated Energy Policy Report hundreds of times now throughout the state.

I'm Commissioner Jim Boyd of the Energy Commission; I'm the Presiding Member of the CEC's IEPR Committee. The Associate and Second Member of the Committee is Commissioner Bill Keese, who is not with us today because he is out of the state on business. In fact, he's out of the country on business.

But I am joined today by Commissioner John Geesman. I'm grateful that John has been able to come down here. John has been a faithful attender at all of our hearings throughout the state. So much appreciate his sitting in.

Also on the dais with me up here today is Melissa Jones on the far end, who is the Advisor to Commissioner Geesman. To my immediate left is Mike Smith, my Advisor; and to his left,

1 Scott Tomashefsky, who is Advisor to Commissioner  
2 Keese. So Commissioner Keese is represented by  
3 his key Advisor, so we appreciate that.

4 I want to first take a few minutes to  
5 thank Kern County for their hospitality. I  
6 particularly want to thank Supervisor Barbara  
7 Patrick and her staff for their help, for their  
8 hospitality in hosting this CEC meeting. It  
9 really takes a lot to put on a meeting, as small  
10 as it may seem. And in these tough financial  
11 times in Sacramento we go around begging for  
12 facilities that might come to us at no cost. And  
13 Supervisor Patrick facilitated that.

14 And not only did she do that, but I  
15 understand out of her own office budget she's  
16 paying the cost of webcasting this hearing of  
17 ours, which we traditionally do, is webcast audio  
18 at least, video where it's available. And she is  
19 paying the cost of having this webcast, so I  
20 welcome the audience out there who are  
21 participating in this hearing that way.

22 And I have found through the several  
23 hearings we have had that we usually attract a  
24 fairly large audience. In fact, probably because  
25 they know they can listen to the webcast, and they

1 don't fill the seats. So we get a lot of comment  
2 from people who have participated via the webcast,  
3 and give us written comments afterwards.

4 So, again, my thanks to Supervisor  
5 Patrick, who happens to be a very close friend,  
6 and a long-time friend of mine and my wife's, and  
7 I've made a lot of treks to Bakersfield in my long  
8 career of government, and it's always a pleasure  
9 to be here. And I thank you all for attending  
10 this hearing.

11 As I was musing about this hearing I  
12 realized it's most appropriate that we are having  
13 the hearing here in Bakersfield. I know the  
14 petroleum industry anxiously invited us to have a  
15 hearing here. And, of course, while some  
16 recognize Bakersfield and Kern County as an energy  
17 center, because of its long history of oil  
18 production, thus satisfying one of the three  
19 energy arenas that I like to talk about, i.e.,  
20 transportation fuels.

21 But because of these oil operations this  
22 area is a major playing in all three arenas,  
23 electricity, natural gas and transportation fuels.  
24 And I would just like to note for the record that  
25 oil refining is the number one user of electricity

1 and natural gas in all of the State of California.

2 And the number two user of natural gas  
3 and electricity in California is oil extraction.  
4 So, it's most appropriate that we come to an area  
5 like this to talk about all three aspects of the  
6 energy situation that we're here to address.

7 And I would say that, as I get into this  
8 you're going to see it's most appropriate that we  
9 do have this discussion. And I know the people  
10 are here to talk about all three of these arenas,  
11 not just, again, oil, as some people with  
12 transportation fuel, as some people might expect.

13 As I've kind of indicated, today's  
14 hearing is but one in a series of hearings that  
15 have been scheduled throughout the state to take  
16 stakeholder and public comments and suggestions  
17 about the CEC's draft Integrated Energy Policy  
18 Report.

19 The final report is scheduled to be  
20 submitted per the statutes to the Governor of the  
21 State of California on November 1st. Per the  
22 statute, the Governor has roughly 90 days to deal  
23 with the report, and then to submit his energy  
24 plan to the Legislature.

25 This happens to be our last hearing so

1 we will return to Sacramento, absorb all that  
2 we've heard and learned, and a final draft will be  
3 prepared for submission to the Energy Commission  
4 for ratification and eventual transmittal to the  
5 Governor.

6 The draft that is before us here today  
7 is the result of, well, I like to say many many  
8 months, until somebody reminded me we've been at  
9 this for a year, so a year's worth of work by the  
10 Energy Commission Staff, some of us Commissioners.  
11 Many many public workshops and public hearings  
12 have been held.

13 There's been work by many state, federal  
14 and local agencies. And we have worked with many  
15 state, local and federal agencies. And thus the  
16 input reflects input from these stakeholders and  
17 the public at large.

18 The statute that calls for this report  
19 detailed a fairly large number of state agencies  
20 that were consulted and included in the  
21 preparation of the report. And we have worked  
22 closely with them. And we've appreciated their  
23 input.

24 In turn, the statute requires that these  
25 same agencies will be guided in their activities



1 in the energy area by the information, analyses,  
2 and ultimately the policies that are developed in  
3 this report, or as a result of this report.

4 So, it's been important for us to work  
5 both ways with that particular stakeholder group,  
6 i.e., state agencies.

7 This Integrated Energy Policy Report is  
8 the first produced under this statute, which,  
9 frankly, was passed the back side of the worst of  
10 the electricity crisis, which has become known in  
11 California as the energy crisis, but it really is  
12 the electricity crisis.

13 And it's a result of the Legislature's  
14 realization of the role the Energy Commission  
15 needs to play and a reaffirmation, frankly, of the  
16 duties and responsibility and the role that the  
17 Energy Commission should play in the energy area.

18 And the statute calls for the submittal  
19 of this first report, as I say, this coming  
20 November. And then it calls for a report to be  
21 submitted every two years thereafter, at the  
22 moment in perpetuity.

23 And it does authorize the Commission to  
24 do and to effect an annual update. And because we  
25 had just barely a year to do this particular

1 report, I mean we started working on it before the  
2 legislation went into effect literally, we have  
3 already started plans for a 2004 update. Already  
4 thinking about the logistics associated, and how  
5 to approve those logistics for the 2005 complete  
6 re-do of the report.

7 Therefore, I like to say a permanent  
8 venue has been created to facilitate fact-finding  
9 regarding California's dynamic energy picture.  
10 And the Energy Commission has become a major locus  
11 for having that continuous dialogue. Which I  
12 think is extremely appropriate in this day and age  
13 with things being as dynamic as they are. And  
14 everything happening in real time.

15 So, hopefully everyone finds this a  
16 beneficial and satisfying process. And as I  
17 indicated earlier, while most eyes or most  
18 attention has been focused for the past two or  
19 three years on California's electricity crisis,  
20 our report covers all three of what I like to say,  
21 legs of the energy -- or all three areas of the  
22 energy arena, or as I like to say, all three legs  
23 of the energy stool.

24 Electricity, natural gas, and  
25 transportation fuel, in my mind, constitute the

1 three legs of the energy stool. And upon that  
2 stool sits the California economy, or California  
3 society as a whole. And all three areas, all  
4 three legs of the stool have been issues in  
5 California for the past three or four years.

6 I like to say all three legs have been  
7 broken on more than one occasion; repaired; the  
8 stool put back together. And quite candidly, it's  
9 still in fairly shaky shape. And we hope, as a  
10 result of our activities and this process, we can  
11 shore it up some.

12 All three areas, therefore, are covered  
13 in depth. And there are policy recommendations  
14 affecting each of the areas.

15 There have been many concurrent and  
16 subsidiary activities, studies, reports and plans  
17 going on while we have been holding our process  
18 with regard to the Integrated Energy Policy  
19 Report. All of these activities have provided  
20 background, provided data, they provided facts  
21 that have aided us and been inputs to the IEPR  
22 effort. And I'll give you some for-instances.

23 So-called energy action plan, the three  
24 electricity agencies or three agencies, frankly,  
25 that deal with electricity and natural gas, which

1 became joined at the hip, or were recognized as  
2 being joined at the hip, that is electricity and  
3 natural gas, during the energy crisis.

4 These three agencies, in pursuit of  
5 their responsibilities, have been working together  
6 and recently formulated and then adopted earlier  
7 this year an energy action plan, which is both a  
8 long-range and a short-range plan, all of which  
9 has been recognized and rolled into our Integrated  
10 Energy Policy Report.

11 Most of you are probably aware the PUC,  
12 working with the CEC, has been engaged in the so-  
13 called procurement program, or procurement  
14 activities, with respect to the procurement of  
15 electricity as we rebuild our electricity future  
16 in the state.

17 A part of that process is the  
18 implementation of the statutes that created the  
19 renewable portfolio standard, or RPS, as we call  
20 it, in which this agency has a major  
21 responsibility and is working closely with the  
22 PUC.

23 There have been a host of legislative  
24 reports, probably particularly known by this  
25 audience relative to gasoline and transportation

1 fuel that have resulted from the gasoline supply  
2 situations of the last three or four years, and  
3 the resulting price spikes.

4 And as many of you know we've been asked  
5 to look at pipelines, strategic fuels reserve, the  
6 subject of how can we reduce our dependence on  
7 petroleum, and with a whole series of reports done  
8 on just the issue price spikes, themselves.

9 And all during the energy crisis the  
10 Governor's natural gas working group, which has  
11 been kind of staffed primarily by the CEC, that  
12 was actually the locus of which originally was in  
13 the Resources Agency, has been operating and  
14 working with all state agencies. And frankly,  
15 have had audiences with some of you along the  
16 subject of natural gas. And I think that group's  
17 done a pretty good job of helping facilitate and  
18 avoid any kind of trainwrecks in that arena while  
19 we try to salvage the electricity situation.

20 So, as I said in opening and closing,  
21 California's economy, if also not its society,  
22 sits on this energy stool. I think we've found  
23 that energy fuels the engine that fuels the  
24 California economy. And those of us, I know  
25 Commissioner Geesman and I, in particular, who are

1 quite concerned about California's economy, and  
2 recognizes the role that it plays in filling the  
3 coffers of government at all levels, that  
4 facilitates government doing the things that the  
5 people feel it should do, and therefore want it to  
6 be resurrected and want it to grow and prosper, we  
7 are all, therefore, concerned about energy, our  
8 energy programs, our energy future. And we want  
9 that future to be solid and to be assured.

10 So, we seek your input and your help  
11 with our task. And with that, I'm going to,  
12 presuming, Commissioner Geesman, you don't have--  
13 do you have any additional remarks?

14 COMMISSIONER GEESMAN: No, I don't.

15 PRESIDING MEMBER BOYD: I'm going to  
16 call upon our staff to provide a quick overview  
17 before we turn to the audience.

18 So, Mr. Thom Kelly of our staff is going  
19 to give a little bit of an overview of this  
20 process, and a brief overview of the content of  
21 the present draft recommendations.

22 Mr. Kelly.

23 MR. KELLY: I'm Thom Kelly, the  
24 Assistant Executive Director for the Energy  
25 Commission representing staff today. I feel a

1 little awkward making this presentation to you who  
2 know all of this and more, so I'm going to see if  
3 I can take a moment to turn this around slightly  
4 so I can face the audience. And if I break  
5 something --

6 PRESIDING MEMBER BOYD: I'm not sure is  
7 Supervisor Patrick wants to pay for that, so --

8 (Laughter.)

9 PRESIDING MEMBER BOYD: But I appreciate  
10 your efforts. You're right, we're tired of  
11 looking at you, Thom, so please look at the  
12 audience.

13 (Laughter.)

14 (Off-the-record comments.)

15 MR. KELLY: This was titled past,  
16 present and future because we wanted to give you  
17 some context for how this report came about. It  
18 didn't just happen overnight, even over a year,  
19 although we did spend over a year working on it.

20 This is the culmination of many  
21 different years of work, starting back in 1975,  
22 which the Energy Commission was created by  
23 Governor Reagan to prepare a report biennially  
24 explaining the nature of electricity and natural  
25 gas and transportation fuels principally to guide

1 us to those facility siting issues and siting  
2 decisions that the Energy Commission had to make.

3 Many of you people may remember that  
4 there were a number, 7 percent growth in  
5 electricity per year was projected at the time.  
6 And that would lead to a lot of consequences.  
7 Some on the environment, some on business and some  
8 on the economy. And the Energy Commission was  
9 created to try to make some sense out of the  
10 competing claims and when power plants were  
11 needed, to actually site them.

12 We did that for quite a few years pretty  
13 well, I think. And about the mid '90s we had  
14 restructured electricity industry. And during  
15 that time a lot of people said that we didn't need  
16 planning anymore, we didn't need data, we didn't  
17 need information, the market would take care of  
18 everything.

19 And so during that period our planning  
20 functions at the Commission, our integration and  
21 analytical functions tended to atrophy, and the  
22 slow loss of our ability to look at the whole  
23 system was taking place.

24 We mostly spent a lot of staff time and  
25 effort looking at special studies for particular



1 problems that arose at one point and another. And  
2 then really redoubled our efforts at trying to get  
3 data and figure out what the information was about  
4 the markets during the crisis years.

5 Then in very recently last year the  
6 Senate passed a bill, and the Governor signed, a  
7 requirement for us to reopen our biennial report  
8 functions with our planning functions, and try to  
9 consolidate this with a lot of lessons that were  
10 learned during that period about how integrated  
11 all electricity, natural gas, petroleum is in the  
12 state. A lot of people were surprised during the  
13 crisis to learn that we had to help refineries  
14 move their product, because refineries use  
15 electricity for pumps. And that came as quite a  
16 big surprise to a lot of people. And we said, no,  
17 let's not let these go dark, let's keep the pumps  
18 going for the fuels to keep going.

19 So a lot of information like that came  
20 to light because we had it ready to hand in and  
21 were available to help.

22 We identified different trends to try to  
23 identify policy actions where they're needed. We  
24 like to find little problems while they're still  
25 little problems, before they become huge problems.

1 And deflect it with good policy.

2 And the information that we provide is  
3 used by other agencies and other businesses in the  
4 state.

5 The structure of our basic policy report  
6 is -- this is a pretty good visual for the kind of  
7 stool that Commissioner Boyd said that the -- rest  
8 upon our natural gas, electricity, transportation  
9 and public interest research, spending and  
10 strategies that we're trying to develop.

11 The framework we have has already been  
12 briefly alluded to. We have this biennial report  
13 that's due in November of this year. And the  
14 update that's due in the next year. We do  
15 periodic assessments along the way. It's not like  
16 the Energy Commission does a report and then does  
17 nothing for awhile, and then starts working again  
18 on another report. We have a lot of work that  
19 goes on in between. And these reports often just  
20 turn out to be read-outs of the progress that  
21 we're making on a number of different fronts.

22 The basic thrust is three pronged,  
23 supply, demand and price. Those are key elements  
24 in the three major areas of energy types in the  
25 state. We focus on infrastructure and how the

1 supply, demand and price work together in the  
2 different market conditions that will yield  
3 results that we either like or don't like, or  
4 people want or don't want. Ever mindful that  
5 there are environmental concerns and impacts that  
6 come from any kind of energy production and use.

7 The public process that we followed is  
8 relatively extensive for the period of time that  
9 we had to work on it. Our managers, when they pt  
10 together the summary of the organizations that  
11 actually participated in this, 140 is quite an  
12 astonishing number. We accepted those through  
13 some 28 public hearings, 18 of them on electricity  
14 and natural gas and public interest work; and ten  
15 in petroleum. And we shared a lot of those  
16 hearings and workshops with the Air Resources  
17 Board, who were very important players as far as  
18 state government is concerned.

19 Over 3000 pages of reports. That was  
20 just too many; it's a stack about so big, too many  
21 to bring on the plane with us.

22 Our theme, and if there's one thing that  
23 I'd like for you to take away, there are three  
24 messages here, there are three parts that you need  
25 to remember. One is infrastructure; two is

1 infrastructure; and three is infrastructure.

2 We focus on it because without a good  
3 infrastructure we don't have reliability; we don't  
4 have reasonably priced energy; the economy just  
5 can't grow; we won't have efficiency, and  
6 certainly we want to find some way to protect the  
7 environment.

8 But it's all going to take some actions.  
9 We don't just wish for this to happen, or project  
10 that it will happen. It takes actions. And quite  
11 a few of these are state actions.

12 This is another picture of the same  
13 Integrated Energy Policy Report process that we  
14 have tried to put together with the three legs of  
15 the stool on the left. And leading to the theme  
16 and policy recommendations that we have in the  
17 center, supported by public and stakeholder input  
18 along the way. That's some 140 agencies and  
19 organizations.

20 And we hope that a number of the  
21 recommendations will be adopted and used by other  
22 agencies, by the Administration and by the  
23 Legislature. And I think everybody agrees on the  
24 goals of economic growth and environmental  
25 responsibility, and stable, if not declining,

1 energy prices.

2 What do we do now? We don't just  
3 publish this other report and then have it go in  
4 the trashcan of public policy. We're hoping that  
5 there will be a lot more to come, a lot of people  
6 will follow some of the guidance that we've  
7 offered in this report.

8 We characterize them under four  
9 different areas. The first and probably the most  
10 important is to harvest energy efficiency. If it  
11 is cost beneficial, if it's cost effective, we  
12 think we'd like to go for it, because it's, one,  
13 cheap, by definition, and, two, it doesn't have  
14 some of the environmental concerns that have been  
15 expressed throughout the hearings.

16 We believe strongly in diversification  
17 of fuel types. It provides us protection against  
18 fuel dependence, -- one, fuel dependence. It  
19 protects us in terms of economic -- strategic  
20 economic vulnerability. The more fuel types we  
21 have to spread risk around, the less likely any  
22 one thing happening that's really of catastrophic  
23 nature is going to affect us too much.

24 We want to encourage customer choice in  
25 dealings when we set up markets and when we try to

1 structure markets or improve markets. We'd like  
2 for that to be a cornerstone. All of which will  
3 lead to an improved infrastructure.

4 The summary of principal  
5 recommendations. We have many recommendations in  
6 the subsidiary reports. We have a fewer number in  
7 the policy report. We have a fewer number yet in  
8 the executive summary. And I have selected from  
9 among those to mention today.

10 The first, energy efficiency programs,  
11 we are already expecting 1800 megawatts to be  
12 currently funded, yielding about a third of the  
13 potential of energy efficiency savings that we see  
14 is possible over the next five years, and ten  
15 years. We see another up to 2000 megawatts of  
16 savings possible through dynamic pricing. And yet  
17 another 1200 megawatts at least from additional  
18 funding, if we can put them all together that  
19 would yield about 5000 megawatts or about 10  
20 percent of the total energy demand in the state.  
21 And that's a number we have met in the past.

22 We think there is still a lot more  
23 efficiency to be gained in this realm. It's very  
24 possible. We started thinking these were stretch  
25 goals. It may be that these are more achievable

1       than we have thought possible, given some of the  
2       comments we've had during the hearings thus far  
3       around the state.

4               We like to insure that the renewable  
5       portfolio standard gets accelerated to achieve the  
6       20 percent goal by 2010, not wait for 2017. That  
7       looks entirely feasible. Customer choice, again  
8       I'll mention retail market structure. We want to  
9       make sure it includes that. Whoever's having an  
10      influence over what the market structure will be.

11             And we believe reserve requirements, if  
12      we're going to have them in there, a good idea to  
13      have, that all electricity providers participate  
14      in providing that reliability; not just have that  
15      burden borne by a few.

16             We'd like to minimize the use of fresh  
17      water in new power plants. That's a key goal for  
18      all new power plants. We'd like to build on the  
19      extensive years of experience the Energy  
20      Commission has had siting, as a one-stop shop, and  
21      permitting licensing power plants, and expand that  
22      to include bulk transmission facilities and  
23      petroleum infrastructure.

24             Because these are currently not  
25      streamlined within the state; not consolidated in

1 the state; and we think that the combination of  
2 those in one place can help facilitate building  
3 our infrastructure.

4 Finally, we'd like to propose through a  
5 number of measures that are quite do-able,  
6 reducing onroad petroleum demand 15 percent. We  
7 don't advocate raising taxes or anything else to  
8 achieve this, but there are other means by which  
9 this can be achieved.

10 The next steps we have. This, as you've  
11 already been told, is the last of our hearings  
12 around the state. This is leading to a draft, a  
13 proposed final draft, by October 17th to be made  
14 public. And on October 29th the full Commission  
15 will consider at its business meeting adoption of  
16 this for transmittal to the Governor in November.

17 And then the Governor, after receiving  
18 this, has 90 days in which to accept, reject,  
19 modify, endorse and make other additions to this  
20 proposed set of recommendations for becoming the  
21 final official energy policy for the state.

22 PRESIDING MEMBER BOYD: Thank you, Mr.  
23 Kelly. Any comments or concerns? Seeing none,  
24 I'll move to the folks who have signed up. Let me  
25 just say, anybody who wants to speak today, we ask



1       that you, in the back of the room, find a blue  
2       card. They're available over in the far corner  
3       there. Sign up and it'll be brought up to me and  
4       we'll call upon you.

5               This is in order to keep a record. As  
6       you note, we have a reporter here keeping a record  
7       of this hearing. This is to help us review what  
8       took place, what transpired, what folks said at  
9       these hearings as we go back to Sacramento and try  
10      to finalize the report.

11             So to help us and to help the audience  
12      listening in, when you come to the microphone  
13      please state your name and your affiliation for  
14      the benefit of the audience. And if you can,  
15      either while approaching the mike or after you  
16      leave, please give a business card to our  
17      reporter. It will assist him in carrying out his  
18      responsibilities. If you don't have a business  
19      card, I give him the blue cards eventually anyway.  
20      But then that does help him.

21             So, with the housekeeping out of the  
22      way, let me first call upon Mr. Joe Sparano of the  
23      Western States Petroleum Association.

24             MR. SPARANO: Good morning, --

25             PRESIDING MEMBER BOYD: Good morning,

1 Joe.

2 MR. SPARANO: -- Commissioner Boyd,  
3 Commissioner Geesman, Advisors to the  
4 Commissioners. My name is Joe Sparano; I'm  
5 President of the Western States Petroleum  
6 Association, or WSPA.

7 I'm here today to share with you the  
8 views of WSPA on the proposed IEPR. Bakersfield,  
9 as Commissioner Boyd mentioned, is the heart of  
10 the production area of our business. So it seems  
11 fitting that you're holding this hearing here  
12 today.

13 The Bakersfield area contains a great  
14 many stakeholders who are directly involved in  
15 insuring the state's energy supplies continue  
16 growing to meet demands.

17 I first want to compliment the Energy  
18 Commission on its efforts to develop a  
19 comprehensive energy plan for California. This is  
20 a complicated task, and I applaud the amount of  
21 energy and commitment that you have displayed.

22 Looking ahead, the next step may be the  
23 most critical to the success of this energy plan.  
24 Soon the IEPR must obtain the appropriate level of  
25 understanding and commitment from the Legislature

1 to move forward with insuring a reliable, cost  
2 effective, balanced and environmentally  
3 responsible future energy base.

4 Before I start my specific comments on  
5 the draft IEPR, I want to address one more topic.  
6 That is the basic premise in the draft IEPR that  
7 says, and I quote, "Although stable, California's  
8 present energy situation is tenuous. Despite  
9 recent improvements to the system, unless the  
10 state acts now, California's future will be  
11 growing demand, supply disruptions and high and  
12 volatile energy prices."

13 This sounds to me like the sky is  
14 falling. While, in fact, other CEC reports have  
15 indicated that the market is working as the market  
16 should, but it is tightly balanced between supply  
17 and demand. In addition, there's a notion offered  
18 as part of previous workshops that production of  
19 petroleum will peak sometime around 2020. I don't  
20 think that's a universally held belief, however it  
21 seems to form a foundation upon which the urgency  
22 to reduce petroleum transportation products demand  
23 is built.

24 I would now like to provide comments in  
25 three distinct areas of the IEPR, transportation

1 fuels, electricity and then natural gas and LNG.

2 I'll be spending a bit more time on transportation  
3 fuels, so let me start there.

4 I believe the Energy Commission  
5 understands WSPA's position on the transportation  
6 fuel section of the report, but I'd like to  
7 reiterate. We are absolutely opposed to the  
8 recommended target of the 15 percent reduction in  
9 gasoline and diesel demand from the 2003 level by  
10 2020.

11 We cannot support this part of the IEPR  
12 since we believe a state mandated sharp reduction  
13 in petroleum demand and force replacement of these  
14 products with subsidized, nonpetroleum renewable  
15 products is not only not in keeping with the  
16 legislative directive, which was to reduce demand  
17 growth, but will also not be in the best interest  
18 of California and its citizens.

19 It is our fundamental belief that energy  
20 policies should encourage market forces and  
21 investment, rather than remove a significant  
22 portion of the existing clean fuel supply.

23 Let the free market work. Free market  
24 policies are in the long-term best interest of the  
25 public and all consumers of energy force demand,

1 and therefore supply reductions are not.

2 To quote the IEPR again, "The policies  
3 we develop now will shape the investments  
4 necessary to assure that our future energy needs  
5 are reliable and cost effectively met, while  
6 providing for economic growth, preserving the  
7 public health and safety, and improving  
8 environmental quality."

9 That's a great and reasonable statement.  
10 However, from our perspective, the particular  
11 demand reduction policy that you have included in  
12 the IEPR will, in no way, encourage investment to  
13 assure that future energy needs are met.

14 Up to this point we have seen no  
15 movement by the state to remove its recommendation  
16 of 15 percent reduction. So I would like to ask  
17 the Commission to include in the final IEPR a  
18 statement that we believe more accurately portrays  
19 the recommendation.

20 If you calculate the recommended 15  
21 percent reduction in gasoline and diesel fuel  
22 demand using CEC's own forecast of 2.6 percent per  
23 year growth of gasoline demand through 2020, you  
24 will find that the actual reduction in demand by  
25 2020, and by association the supplies that are

1 needed to meet that demand, is more than 50  
2 percent.

3 WSPA requests that the language  
4 describing this calculation be incorporated in the  
5 final report.

6 The draft report also indicates that you  
7 are not recommending new taxes or fees to insure  
8 that demand reductions are achieved. However, we  
9 believe this is only true with respect to the  
10 removal of the direct tax and fee options that  
11 were formerly listed in the original SRPD report  
12 appendices.

13 The draft report does recommend  
14 significant penetration of alternative fuels and  
15 vehicles. We support that. In fact, WSPA members  
16 are already working to develop some of the  
17 alternatives, such as hydrogen fuel cells.

18 However, many of the alternatives will  
19 require millions of taxpayer or industry dollars  
20 to subsidize. As a result we believe there will  
21 be a cost to taxpayers and consumers. WSPA  
22 requests that this fact also be identified in the  
23 final IEPR report.

24 Additionally the report does not address  
25 the potential market volatility and instability in

1 supply that may be inherent in the alternative  
2 fuels arena. WSPA supports a balanced and  
3 diversified energy portfolio to reduce upsets in  
4 the marketplace. However, we do not support an  
5 attempt to shift energy options with more volatile  
6 costs and lower technological security of supply.

7 WSPA requests that the Commission insert  
8 language into the final IEPR identifying that the  
9 state has not performed a detailed study of these  
10 factors and that the Commission recommends this  
11 study be completed in the near future.

12 Also the draft IEPR still relies on the  
13 federal government acting on a California request  
14 to double the corporate average fuel efficiency,  
15 or CAFE miles per gallon standards as a way to  
16 reduce fuels demand. Even if the feds cooperate,  
17 and I think we all know that's a big if, it is not  
18 clear that total miles driven will drop.  
19 Therefore, demand may not fall, either.

20 And if the feds don't play ball, and the  
21 IEPR's 15 percent reduction in demand is enacted  
22 by the Legislature and the government, where does  
23 that leave the people of California? Drivers will  
24 still want and need the security of supply. At  
25 the same time the state could be eliminating up to

1 50 percent of ultra clean fuels. What's wrong  
2 with this picture? I still do not understand why  
3 this is a good way for us to go.

4 In a previous workshop we offered a  
5 suggestion that did not find its way into the  
6 draft IEPR. Our suggestion was that the CEC form  
7 a blue ribbon panel that includes a broad base of  
8 representatives whose mission would be to examine  
9 the impacts of unintended consequences of possible  
10 IEPR recommendations.

11 As I said, we have not seen any movement  
12 toward adopting that suggestion, but I think you  
13 should. Unfortunately, it looks like the CEC and  
14 WSPA will not resolve our difference of opinion on  
15 the matter of the need or not to reduce petroleum  
16 products demand by 15 percent.

17 So, as a middle ground, we suggest the  
18 following: Add a sentence to the report that  
19 allows this recommendation to be revisited, and  
20 perhaps eliminated, in the event that you're wrong  
21 and the recommendation actually leads to market  
22 upheavals. You might do this in the 2004 update  
23 that Commissioner Boyd mentioned at the beginning  
24 of his remarks.

25 This wording addition should be made



1 even if the feds agree to a doubling of the CAFE  
2 standards, since that will not necessarily result  
3 in lower demand, as we have already seen between  
4 1980 and 2000. Demand can actually increase while  
5 fuel efficiency increases.

6 In addition, WSPA's concerned about a  
7 statement on page 16 of the report. It reads:  
8 Emissions from refineries and distribution in  
9 fueling stations create growing amounts of air  
10 pollution, while the state's water and coastal  
11 resources can be contaminated by oil spills and  
12 leaking storage tanks."

13 Seems to me that for balance the  
14 Commission might also recognize our industry's  
15 contributions to environmental improvements. For  
16 example, petroleum industry's response to the  
17 state's cleaner burning gasoline program is  
18 equivalent to taking 3.5 million cars off the road  
19 every day. This was the single biggest  
20 environmental program the state has implemented in  
21 the last 30 years. And I know that some of you on  
22 the dais were directly responsible for this  
23 wonderful effort to clean up our air. It has been  
24 responsible for 25 percent of the state's air  
25 emission reductions.

1 I think people should also know that  
2 WSPA member companies spent about \$5 billion to  
3 help accomplish the result that I believe we all  
4 are pleased with.

5 There are other facts that contradict  
6 the report's harsh treatment of our industry's  
7 contributions. L.A. basin refineries account for  
8 less than 1 percent, less than 1 percent of all  
9 the stationary source emissions in the entire L.A.  
10 basin.

11 In addition, more oil is naturally  
12 seeped off the coast of California every day than  
13 has been spilled by the petroleum industry in the  
14 last 30 years. Interesting facts that I think  
15 don't often make it to the public's attention.

16 WSPA recommends that the CEC remove the  
17 offensive statement that I read from the IEPR, or  
18 support it with adequate documentation that we're  
19 not sure really exists.

20 On the plus side, the IEPR recommends  
21 that a one-stop licensing authority for petroleum  
22 infrastructure be established to expedite permits  
23 for new facilities that will increase the supply  
24 of petroleum. WSPA suggests that you also  
25 specifically extend this excellent suggestion to

1 existing facilities that have already made  
2 investments in California to meet the energy needs  
3 of the state, that may need to regularly upgrade  
4 and modify their equipment.

5 Now on to electricity and cogeneration.  
6 Electricity regulation and policy remain unsettled  
7 in California. With respect to electricity, WSPA  
8 supports the following: Establishing and  
9 maintaining the private marketplace for  
10 electricity. Insuring equitable rate setting for  
11 industry customers. Promoting market  
12 opportunities and choice for industrial customers.  
13 Promoting customer generated supplies and  
14 maintaining a stable electricity regulatory and  
15 policy environment.

16 WSPA strongly supports the promotion of  
17 energy efficient power generation such as  
18 cogeneration to reduce California's natural gas  
19 demand. Most California oil and gas companies, as  
20 Commissioner Boyd mentioned, are large users of  
21 electricity. And many have made major  
22 cogeneration investments that have created jobs  
23 and tax revenues for the State of California.

24 These cogen units use internally and  
25 externally produced fuel to generate power for our

1 members' facilities. Many even export surplus  
2 electricity into the power grid. All of this  
3 activity associated with cogeneration enhances the  
4 reliability and lowers the energy cost of the  
5 grid, increases energy efficiency and reduces air  
6 emissions.

7 WSPA believes the draft IEPR focuses  
8 unduly on traditional merchant generators and does  
9 not adequately address the benefits and role of  
10 cogeneration in the state.

11 In addition, the IEPR fails to recognize  
12 that various regulatory proposals are creating  
13 uncertainty that cogenerators will be able to sell  
14 their excess power and continue current  
15 operations. We believe the IEPR should take a  
16 visible and strong stance in support of existing  
17 and new cogeneration investment to insure  
18 continued participation by this sector in  
19 providing future electricity supply.

20 The IEPR should also include specific  
21 recommendations for enhancing private investment  
22 opportunities in cogen facilities. The Commission  
23 should also link plans to improve natural gas  
24 supplies, the use of those supplies for generation  
25 of low cost electricity.

1           WSPA agrees with and supports your  
2       recommendation for research and development to  
3       encourage ways to invest in energy efficiency. We  
4       also enthusiastically support the recommendations  
5       that encourage energy conservation and applaud the  
6       state's Flex-Ur-Power program.

7           Now, onto the last section, natural gas  
8       and LNG. WSPA believes there are opportunities to  
9       remove impediments to California's natural gas  
10      development that would improve reliability of  
11      supplies and the cost of natural gas. California  
12      needs to replace instate gas reserves and support  
13      economically competitive instate gas supplies.

14          We support the CEC recommendation to  
15      encourage and enhance production of instate  
16      natural gas consistent with maintaining  
17      environmental protection. We also support  
18      additional natural gas pipelines, both intrastate  
19      and well as interstate lines are needed to  
20      increase available and cost effective supplies.

21          There are some non-infrastructure  
22      activities that we believe the state also needs to  
23      engage in. The Commission should offer plans to  
24      eliminate dis-incentives, improve the liquidity of  
25      the market, streamline permitting and regulatory

1 oversight where you have already made some great  
2 suggestions in the IEPR, and provide equity on the  
3 issue of natural gas specifications.

4 WSPA has worked closely with CARB and  
5 the CEC over the past two years on proposed CARB  
6 motor vehicle compressed natural gas  
7 specifications. However, attempts by some to  
8 force application of those standards on producers  
9 of commercial natural gas have only worked to  
10 confuse and discriminate against those producers,  
11 and against prospective investors in LNG  
12 facilities.

13 To deal with this WSPA suggests that the  
14 CEC take a leadership role in resolving the issue,  
15 using the facts to win the day.

16 There is locally produced commercial  
17 natural gas that has been kept from the  
18 marketplace as a result of CARB motor vehicle  
19 specs being misapplied to California producers of  
20 commercial natural gas. CEC's leadership can  
21 allow the facts to come to the table and cost  
22 effective solutions can be developed that do not  
23 discourage the production of commercial natural  
24 gas, or the delivery of LNG into California.

25 So, for natural gas WSPA requests that

1 the final IEPR include recommendations for  
2 streamlining the permitting process required for  
3 expansion or new construction of pipelines,  
4 storage, and cogeneration facilities. A single  
5 existing state agency managing the entire process  
6 would be ideal.

7 WSPA also supports promoting the  
8 installation of LNG facilities in strategic market  
9 locations throughout the state. With natural gas  
10 as the fuel of choice for electricity generation,  
11 adding a commercially significant volume of LNG to  
12 the supply mix will benefit the market through  
13 diversity of California's energy supply, and a  
14 more global basis for sourcing supplies that meet  
15 our needs.

16 Current CEC forecasts of natural gas  
17 demand increases in this state tend to support the  
18 need for LNG infrastructure development. This  
19 type of development, in our experience, is  
20 typically faster and cheaper to install than  
21 natural gas facilities.

22 WSPA would like the Commission to  
23 include in the IEPR a commitment similar to that  
24 which was done in the strategic fuels reserve  
25 report to designate an existing state agency in

1 2004 to facilitate the siting of LNG projects and  
2 to clearly delineate an expedited regulatory  
3 process.

4 The draft IEPR does mention this with a  
5 suggestion to coordinate permitting reviews with  
6 all entities to develop new LNG terminals. We  
7 recommend that the Commission also provide  
8 language supporting accelerated LNG development in  
9 the state, including specific recommendations on  
10 how the state could accomplish this goal.

11 WSPA supports the IEPR's recommendation  
12 to strengthen California's overall energy  
13 infrastructure. Specifically we are very  
14 interested in seeing implementation of the  
15 recommendation to upgrade marine infrastructure.  
16 This will allow imports of energy products to  
17 reach California consumers in a more timely  
18 manner.

19 In closing I'd like to restate our  
20 member companies' commitment to help shape the  
21 energy solution in California. The IEPR already  
22 goes a long way toward creating the framework for  
23 future constructive and beneficial energy  
24 decisions.

25 While we disagree with many parts of the



1 transportation section of the report, we are  
2 encouraged that the Commission understands the  
3 complexities of electricity and natural gas  
4 resource utilization issues.

5 We respectfully request that all of our  
6 suggested revisions to the draft report be  
7 carefully considered and incorporated prior to  
8 adoption of the final IEPR.

9 In the end it will be the final  
10 recommendations of the Commission and the actions  
11 of California's Legislature and Governor that  
12 determine whether the citizens of California will  
13 enjoy a robust energy sector driven economy. We  
14 believe our recommended changes to the report will  
15 enhance the possibility of that occurring.

16 Thank you for giving me the time to  
17 express these views.

18 PRESIDING MEMBER BOYD: Thank you, Mr.  
19 Sparano. And I appreciate the fact you came all  
20 the way down here to give us WSPA's views on this.  
21 I appreciate you doing that since you were unable,  
22 as an organization, to attend the Sacramento  
23 hearing.

24 But, as I said in my introduction, maybe  
25 this is an appropriate place to have such a

1 discussion.

2 MR. SPARANO: I just wanted to take a  
3 train ride.

4 PRESIDING MEMBER BOYD: I see. Well, as  
5 you know, perhaps some of your members don't know,  
6 you and I have had lots of discussions over some  
7 of the issues that you broached today that are now  
8 contained in the IEPR, which have their genesis in  
9 the reducing dependence on petroleum support.

10 And I, for one, just speaking for  
11 myself, recognize that we have somewhat different  
12 views, although in many cases we've had some very  
13 similar views.

14 And just speaking for myself, but I  
15 would recognize that the 2076 report was  
16 unanimously approved by all five Commissioners of  
17 the Energy Commission, and by all members, or at  
18 least by the Air Resources Board; I'm not sure  
19 what their vote was, I wasn't there.

20 But there's a lot of momentum behind the  
21 feelings that have led to the recommendations you  
22 see there. And fortunately, as I indicated, I  
23 think the Integrated Energy Policy Report, being a  
24 real-time, dynamic process, with updates and what-  
25 have-you, gives us an opportunity to continue that

1       dialogue.

2               Also, in several of the subsidiary  
3       reports we did recommend that we would be setting  
4       up partnerships and groups to deal with the  
5       industry on a lot of the questions that had been  
6       raised about adequate supplies of petroleum.

7               Let me just, for the benefit of those  
8       here in the audience, repeat some of the things  
9       I've said in the past that kind of led me to vote  
10      positively for other recommendations in the  
11      report.

12              For at least five years I have  
13      approached in two different capacities in my long  
14      career in government, the industry to come talk to  
15      us about if they think there's an impending  
16      crisis. And if there is any desire to increase  
17      refinery capacity in California.

18              And quite frankly, the silence has been  
19      deafening. And I began to think I must be  
20      shooting at the backside of an elephant with a B-B  
21      gun. It does appear that the two-by-four between  
22      the eyes has brought some attention to the issue.  
23      And I look forward to continued dialogue.

24              Most of the messages I ever got were  
25      that imports were the preferable approach to

1 meeting California's gasoline demands. Well,  
2 since we initiated those kinds of discussions  
3 we've had a long series of price spikes; and we've  
4 consistently found that the cause is tight supply.  
5 And I want to underscore that we have not  
6 consistently found what many people have hoped we  
7 would find, that there's collusion and conspiracy,  
8 and that you're gouging us.

9 What we have found is that there's a  
10 serious supply problem in the State of California.  
11 And the refining industry is strained to its  
12 ultimate. That any sneeze or hiccough in the  
13 system results in some kind of loss of product.  
14 And since it is a just-in-time delivery system  
15 now, we see a loss of supply and the prices run  
16 up. And we need to focus attention on that  
17 situation.

18 In all of our activities to date, and as  
19 you acknowledge, we have identified some issues  
20 that we think we can easily address. I'm not sure  
21 if redress is the right term. But we've indicated  
22 that we would work to implement anything we can do  
23 to enhance the industry's ability to import  
24 supply. And that we would work with the refining  
25 industry any way we could to enhance their

1 operations.

2 Commissioner Geesman and I had the good  
3 fortune the day before yesterday voting on a  
4 research proposal to the tune of \$185,000 to help  
5 develop a research development roadmap here in  
6 California for refineries. But that's just one of  
7 eight or nine activities we've undertaken.

8 I've got a list here of more than \$2  
9 million worth of activities that the Energy  
10 Commission has engaged in, all at aiding and  
11 assisting the refining industry in the state.

12 So I think our heart is in the right  
13 place. But we do need to facilitate a serious  
14 discussion of what our transportation energy  
15 future is going to be in the state. And that has  
16 led to the very strong recommendation that if we  
17 continue to depend on petroleum, that our economy  
18 might be in trouble. And that we had better meet  
19 the ever-growing need of the California driving  
20 public and its need for transportation fuels by  
21 embarking in the area of alternatives to  
22 petroleum. And we better call people's attention  
23 to the fact that petroleum is a problem.

24 This agency has not embraced the  
25 petroleum peak issue with respect to picking a

1 date. Rather, we've expressed our concerns  
2 relative to the ability of the system to provide  
3 finished product to meet our needs.

4 So, this is why I say we have, you know,  
5 the energy stool upon which we sit is very  
6 fragile. And that all three legs of it are in  
7 need of repair. And, frankly, we look forward to  
8 working with you all to resolve some of these  
9 issues.

10 As we have said before, we think  
11 efficiency is the major thing to pursue in the  
12 energy area total or period. And we, as you've  
13 mentioned, we have significant investments in  
14 efficiency, in electricity, in natural gas. And  
15 we've embarked upon efficiency in the  
16 transportation arena by calling upon the industry,  
17 through CAFE, to do what we know they can do  
18 technologically and improve the efficiency of the  
19 automobile.

20 We've also indicated that should we  
21 fail, but we don't intend to fail because I think  
22 there's a groundswell of interest in the subject  
23 beyond any that has occurred to date, that has not  
24 been able to convince Washington to address the  
25 subject, but we did say in the 2076 report, which

1 is more or less embraced by reference in this  
2 document, that should we fail in that arena, we  
3 certainly would address the goal we set for  
4 ourselves. Because we don't intend to put in  
5 place some of the other Draconian measures that  
6 we've discussed before.

7 So I think all I'm trying to say is we  
8 appreciate your offer to work with us. We accept  
9 that offer. We want to work with your industry.  
10 We're actually investing quite a bit in the  
11 industry. And we are really trying to have a  
12 positive impact on the economy of the state. And  
13 we'll continue our dialogue about which of us is  
14 going in the right direction.

15 So, I want to thank you for your  
16 testimony.

17 MR. SPARANO: May I make a couple  
18 comments and then ask --

19 PRESIDING MEMBER BOYD: Certainly.

20 MR. SPARANO: -- a question, please?  
21 The comments are --

22 PRESIDING MEMBER BOYD: You can make the  
23 comments. I don't know about I can answer any  
24 questions, but go for it.

25 MR. SPARANO: One of the things in

1 listening to you describe the delicate supply/  
2 demand balance, one of the things that I think the  
3 Commission and the public at large needs to focus  
4 on is that there hasn't been a refinery built in  
5 this state since 1969, or '68, depending on which  
6 person you read quoted in the papers or  
7 periodicals. But it's been a long time.

8 If you don't make attempts to support  
9 private investment in the facilities that will  
10 allow the supply of what we all know we need to  
11 keep our transportation, and therefore our  
12 economy, moving, then you shouldn't be surprised  
13 that the supply begins to lag the demand.

14 There are many reasons why those  
15 investments haven't been made. We've all talked,  
16 and I'm delighted that both you and Commissioner  
17 Geesman have rallied around the concept that the  
18 current permitting process is perhaps flawed in  
19 enough places that we all want to do something  
20 about it. And you know that I'm there to work  
21 with you on trying to correct that. And I made  
22 some comments on behalf of the industry as to ways  
23 that you might help do that in the IEPR report.

24 But the fact of the matter is private  
25 business makes investments that are in the best



1 interests of the shareholders. They have to have  
2 some sort of certainty that those investments will  
3 be able to take place in a reasonable amount of  
4 time.

5 So, even with an improved permit system  
6 hopefully getting the timeline down there still  
7 will be the issue of economics. And one of the  
8 things that this report does is it sends a very  
9 very clear message to the same people that there  
10 has been concern expressed about not having enough  
11 supply to meet the demand, that we're going to cut  
12 50 percent of your product out of the system by  
13 fiat, whether by CAFE improvements, or if not,  
14 some other method as yet undefined. But we still  
15 want you to make investments in the system.

16 I think those are not compatible in my  
17 view, and I wanted to share that with you.

18 I think the observation about imports  
19 versus producing products, as an industry those  
20 decisions are sometimes daily. The timeline's a  
21 little longer because many of the places that can  
22 reach California with gasoline and diesel that  
23 meet our clean fuel specifications are a long  
24 distance, and therefore many days away in terms of  
25 satisfying an urgent need.

1           So our industry makes decisions on a  
2 regular basis, do we import; where do we get the  
3 imports; can we meet specifications; do we take  
4 the risk of our capital, of our shareholders'  
5 capital, to build facilities that will do the same  
6 thing. And I don't know if I can characterize  
7 our industries as having a consensus that perhaps  
8 they are indifferent to whether it's imports or  
9 facilities. I just don't know. That's always an  
10 individual company decision. But the fact of the  
11 matter is there are ways to deal with the problem.

12           And now I'll get to my question. I am  
13 still unable to understand, and I would love to  
14 hear how taking a good portion of what everyone  
15 acknowledges is not only clean, but still getting  
16 cleaner gasoline, off the market. It won't just  
17 be because CAFE standards change. CAFE standards  
18 ran up from 1980 to 2000. Efficiency doubled, and  
19 the gasoline demand was up 53 percent, according  
20 to your own statistics.

21           There's a loose ball running around here  
22 somewhere, and I have yet been able to understand  
23 what that is. And my question to you is please  
24 help me understand, I'd like to understand how  
25 cutting supply out of the system of perfectly good

1 material will help us meet our energy needs.

2 PRESIDING MEMBER BOYD: Well, your  
3 question is predicated on one very basic  
4 assumption and that is that your industry could  
5 actually meet that demand you say that is going to  
6 occur, and grow its ability to meet it, a 50  
7 percent growth.

8 I think that is the basic question. The  
9 point we've reached right now is there's a  
10 terrible uncomfortableness in the state about the  
11 ability of the industry to even meet today's  
12 demand with the incredible number of price  
13 volatility issues we've had.

14 So to say that this proposal takes away  
15 that kind of growth, we're playing with statistics  
16 here. If you can sit down with us seriously over  
17 the next period of time that we engage in this,  
18 which is practically all the time now, and  
19 convince us that the industry really could do  
20 this, maybe we'd have a different view when we  
21 update in the year 2004.

22 But your assumption is that you can meet  
23 that growth pattern that you say we're taking away  
24 from you. And I don't think a lot of policymakers  
25 are comfortable with the ability of the industry

1 to do that.

2 MR. SPARANO: In the last 20 years when  
3 was the last time you sat in a gasoline line  
4 because there was no supply? I know the answer so  
5 I won't --

6 COMMISSIONER GEESMAN: Let me jump in  
7 here. I'm troubled that our state government  
8 policymaking process can't go through too many  
9 more of these volatility experiences without  
10 provoking some fairly stupid responses.

11 Now, we worked together over the course  
12 of the last summer, and I know that there were  
13 many that worked much longer than that, to review  
14 the advisability of a state-operated strategic  
15 petroleum reserve. I'd characterize that as  
16 perhaps a stupid response. But we put that to  
17 rest, I hope.

18 The last set of volatility events  
19 provoked a proposal put forward, I think, by a  
20 very serious man, or at least put forward by some  
21 seemingly shrewd political consultants, that the  
22 gasoline industry be turned into a public utility.  
23 I would characterize that as a fairly stupid  
24 response.

25 There will be more. And they will have

1 a greater fervor and support among the public as  
2 long as we are on such a narrow supply/demand  
3 balance.

4 I think that we've seen over the last 30  
5 years a pretty characteristic response to each of  
6 these events. About 70 percent of the public  
7 thinks that the industry is in collusion, and that  
8 they're allies in government or bought-and-paid-  
9 for to facilitate that collusion.

10 All of this builds to what I would  
11 characterize as a high potential for some fairly  
12 stupid responses on the part of the public sector.

13 We've been in a similar situation in  
14 electricity, the 1970s, where we were projecting  
15 an unsustainable level of demand growth. Not with  
16 any level of precision in terms of what the future  
17 20 years out would look like, but the response was  
18 fairly basic:

19 One, we need to do all that we can to  
20 reduce demand. Two, we need to search for and  
21 promote alternatives. Three, we need to promote  
22 additional supplies. Not necessarily in that  
23 order, simultaneously pursue all three. They're  
24 not incompatible options.

25 In this process, as you know, I would

1 prefer to focus on what we can do to improve the  
2 permitting process. And I admire your temperate  
3 comments and moderation. And perhaps it's your  
4 role to use words like, perhaps the permit process  
5 is flawed. I think it's indisputable that it's  
6 flawed.

7 And I think it's one of the primary  
8 responsibilities of state government, when it sees  
9 the deep and intrinsic flaws in what is currently  
10 an overlapping and fragmented and endless permit  
11 process, largely conducted at the local level, to  
12 fix that.

13 And I think working together, and I'm  
14 certainly appreciative of some of the comments  
15 you've made in our earlier proceedings, working  
16 together I think we can fix that this year.  
17 That's going to be a long and hard road because I  
18 think you're well aware of the political obstacles  
19 we face in the different branches of state  
20 government to resolve that.

21 I would certainly agree with you that  
22 the on-stop permitting process needs to cover  
23 existing facilities desiring expansion and  
24 modification. In my mind there is no question  
25 about the desirability of that.

1 I also think you make a good point, and  
2 we heard a similar remark in our proceedings in  
3 Los Angeles last week about providing more  
4 recognition for cogeneration, and searching for  
5 ways in which we can provide more permanent  
6 encouragement of additional cogeneration.

7 I think the state's been a bit of a  
8 fickle ally to the cogenerators over the years.  
9 We've done everything we can on a sporadic basis  
10 to encourage investment in that industry. And yet  
11 I don't think we've sustained our commitment as  
12 long as we should. And I'd like to see us change  
13 that.

14 That's not a question, but it is a  
15 response to the question you asked.

16 MR. SPARANO: I appreciate all the  
17 comments, and I want you to know that not for a  
18 second do I think that all of you at the Energy  
19 Commission have an easy job ahead of you. This is  
20 a very very difficult job. I admire the  
21 persistence you've showed, the restraint you've  
22 showed, perhaps in the face of some things that  
23 either make you unhappy directly or make you  
24 unhappy because the public gets all over you and  
25 then you're unhappy.

1           We, in the industry, do recognize it's  
2           not an easy task. And I appreciate your giving us  
3           this much time to express our feelings.

4           Thank you.

5           PRESIDING MEMBER BOYD: Thank you, Joe.

6           Next is Mr. John Allen, President and GM  
7           of Oxy Elk Hills.

8           MR. ALLEN: Good morning, Commissioner  
9           Boyd, Commissioner Geesman, --

10          PRESIDING MEMBER BOYD: Good morning,  
11          John.

12          MR. ALLEN: -- Ms. Smith, -- excuse me,  
13          Ms. Jones, Mr. Smith and Mr. Tomashefsky. I want  
14          to welcome you to Bakersfield.

15          As Jim said, I'm John Allen. I am  
16          President and General Manager of Oxy at Elk Hills,  
17          a wholly owned subsidiary of Occidental Petroleum  
18          Corporation. Oxy is the largest natural gas  
19          producer in the State of California. We're the  
20          third largest oil producer. We're the largest  
21          private sector owner of mineral rights in the  
22          state. And we're one of the last, large, well-  
23          capitalized companies that exploring for oil and  
24          gas in this state.

25          So my remarks are going to represent the



1 supply side of the business, along with the 1800  
2 employees and contractors who make their  
3 livelihood at Elk Hills.

4 I first want to thank you for the  
5 opportunity to review and to comment on your  
6 report. In fact, I applaud the Committee's  
7 efforts to accumulate facts and to develop policy  
8 to guide governmental decisions on energy matters  
9 based on facts.

10 Abundant, reasonably priced energy is  
11 crucial underpinning of the state's economic  
12 development and growth and all the expectations  
13 that we have in our various vision of the  
14 California dream.

15 I support the Committee's recommendation  
16 to pursue the importation of LNG, and the  
17 expansion of marine terminals for receipt of  
18 storage of crude oil and refined products. But I  
19 also encourage you to recognize that when those  
20 facilities are completely loaded, one easy  
21 solution is to increase instate production. And  
22 that wasn't in the report.

23 The report identifies that refining  
24 through what is essentially at capacity, leading  
25 to unstable fuel supplies and prices that

1 adversely impact other businesses, as well as  
2 consumers. The beginning of a business  
3 case for refinery expansion, as Joe mentioned  
4 earlier.

5 Unfortunately, the report only includes  
6 idealistic, long-range solutions to deal with  
7 these problems. Californians deserve prompt,  
8 pragmatic solutions while long-term solutions are  
9 pursued.

10 As a producing company representative  
11 I'm most disappointed, though, with the policy's  
12 lack of emphasis on, and lack of incentives for,  
13 instate production of natural gas and crude oil.  
14 And the silence in the report that is the  
15 treatment for cogeneration.

16 In deference to my colleagues in the  
17 industry and those who are here to speak, I don't  
18 want to focus on the breadth of the report  
19 anymore, but I will focus directly on issues  
20 relating to natural gas supply.

21 Today California has five sources of  
22 natural gas supply, its instate production and  
23 four interstate pipelines. Instate production  
24 amounts for about one-sixth of the total supply.  
25 As the policy draft notes, it is widely believed

1       that growth potential for instate production is  
2       limited. And one certain way to insure that this  
3       is the result is to provide no encouragement for  
4       investment in building instate production.

5               I believe this is a serious mistake.  
6       And this belief is based on some real life  
7       experience. Earlier in my career I worked in two  
8       developing countries. Each of these countries  
9       decided in their own way and at their own times to  
10      offer incentives for exploration and development  
11      of oil and gas at a time when that decision was  
12      contrary to conventional wisdom. Both of these  
13      countries became exporters of oil within a decade  
14      following the implementation of their own  
15      progressive energy policies.

16             Currently natural gas that is not  
17      produced in the state by instate production  
18      industry is imported by pipelines. Historically  
19      these pipelines have been highly reliable, having  
20      had only occasional interruptions. Unfortunately,  
21      long distance pipelines are relatively easy  
22      targets, whether for terrorists or for natural  
23      calamities. Thirty percent of California's  
24      natural gas supply comes from one single pipeline.  
25      Imagine the impact of a disruption there, even if

1       only for a week.

2               Instate production is distributed  
3       throughout the state. Consequently it is much  
4       less vulnerable. Californians want and deserve  
5       highly reliable energy supplies. Instate  
6       production is significantly more secure than  
7       imports and, in my view, the party is not over  
8       yet.

9               It is true, as I've mentioned to you  
10       before, that the upside potential is not to become  
11       30 or 40 or 50 percent of the state's supply. But  
12       I think to remain a significant portion of the  
13       supply, and to contribute to the security of  
14       supply, is indeed a value to the state.

15              Even though I'm strongly in support of  
16       the instate industry, I also support the  
17       importation of LNG, as I mentioned earlier, a  
18       sixth source of supply. If it is brought in in  
19       commercially significant quantities I believe  
20       would benefit supply reliability and it would add  
21       to the pricing competition.

22              Action will need to be taken soon,  
23       though, because LNG projects, even when permitted  
24       and expedited, take quite a long time. The lead  
25       times for construction of receiving facilities is

1 quite substantial.

2 I'd like to address a couple of specific  
3 recommendations, after a general one. The general  
4 one is that I respectfully request the Commission  
5 to reconsider its dismissal of instate production,  
6 recognizing that oil and gas production in  
7 California remains a consequential part of the  
8 state's economy and its energy policy.

9 The specific things I would like to  
10 recommend are that the CEC should eliminate  
11 disincentives to instate investment in oil and gas  
12 production, particularly using the same ideas  
13 we've used in power and that are being discussed  
14 for refining, to expedite the permitting of the  
15 drilling of exploration wells and the development  
16 of the energy resources that remain within the  
17 state.

18 Utility companies should be required to  
19 provide prompt, firm access rights to instate  
20 production. Today the utility companies act  
21 independently of your policies, they act in their  
22 own interests, and they act as monopolies and do  
23 not give very much choice to producing companies  
24 in this state.

25 If they cooperate, it's wonderful. If

1       they don't, maybe we should consider bringing  
2       third parties, allowing third parties to gather  
3       natural gas so that industrial gas systems could  
4       be established to compliment the monopolies.

5               One final remark I would like to close  
6       with, I'd like to quote California Congressman  
7       Richard Pombo who chaired the House Natural Gas  
8       Task Force. Mr. Pombo said, "The environmental  
9       desirability of natural gas has led to massive  
10      growth in its demand. Unfortunately, while the  
11      federal government has embraced policies that  
12      encouraged the use of natural gas, it has  
13      effectively prevented our producers from  
14      increasing supplies. The resulting imbalance  
15      between supply and demand will continue to have  
16      devastating effects on our economy and our way of  
17      life if it is not addressed quickly."

18             Personally I can't help but see that  
19      policy direction that's set here before us today  
20      is poised to follow the flawed policy of the  
21      federal government. I encourage this Commission  
22      not to allow this to happen.

23             Thank you.

24             PRESIDING MEMBER BOYD: Thank you, John.  
25      Appreciate your commentary. Couple points. As

1 Commissioner Geesman indicated a minute ago, he  
2 and I have both given quite a bit of consideration  
3 to the topic of cogeneration as a result of the  
4 discussions we've had to date.

5 And just let me segue here and indicate  
6 it's been very difficult for the staff, and I  
7 appreciate the task they've had, to try to distill  
8 3000 pages down to 30; and to lift all the salient  
9 points from all those other subsidiary reports  
10 that really constitute the entire Integrated  
11 Energy Policy Report. And we recognize that some  
12 issues have not gotten the emphasis in the final  
13 document that perhaps we intended. And certainly  
14 cogeneration is a good example of that.

15 The other issue I wanted to mention, and  
16 I think your points on natural gas are extremely  
17 good, I did want to say that it was never our  
18 intention to dismiss the idea of instate gas  
19 production. In fact, I've been quite a fan of  
20 that in the other context I've operated in, on the  
21 natural gas working group, the Governor's working  
22 group. But we haven't been, admittedly, too  
23 successful.

24 And I think your point's perhaps correct  
25 that we've not given enough attention to that in

1 the final policy report. I, for one, would like  
2 to pursue that a little bit more to see that it  
3 does get the attention, as you and I have  
4 discussed, and as many other people have agreed.

5 I mean there's no way that California's  
6 domestic production will become a dominant source,  
7 but I certainly agree, and have for the last  
8 couple of years, that doing everything we can to  
9 incent our own production for very selfish  
10 economic reasons, as well as security reasons, is  
11 a very wise thing to do. And I, for one, agree  
12 with you on that.

13 I think we're all on the same page on  
14 LNG. And I think we see it as necessary for a  
15 host of reasons and hopefully it will get the  
16 proper emphasis in the final report.

17 As Commissioner Geesman has already  
18 indicated, it is with some courage and trepidation  
19 sometimes we venture out into the area of  
20 permitting. And other people's turf that you  
21 begin to deal with. And permitting in the  
22 transportation fuels arena and permitting in the  
23 natural gas, and particularly LNG area, are areas  
24 where we've stepped out in. And we will probably  
25 suffer the slings and arrows of other folks,



1 perhaps. But these are issues that do need to  
2 have a healthy debate if we're going to move with  
3 the light speed we need to move here in the 21st  
4 century, as contrasted with the way we've tended  
5 to move in the past.

6 So, your points are all well taken.

7 Commissioner Geesman, any comments you'd  
8 like to make?

9 COMMISSIONER GEESMAN: This isn't an  
10 area where I have a great deal of expertise, but  
11 I'm curious if you can summarize what you think  
12 are the primary existing disincentives to further  
13 instate gas production.

14 Do you distinguish between onshore and  
15 offshore gas production?

16 MR. ALLEN: Let me first address your  
17 last question. There is a very significant  
18 difference between onshore and offshore. The  
19 onshore has a significant number of agencies with  
20 whom we have to deal. But the offshore deals with  
21 a great many; many of whom today have taken the  
22 view that things that slipped under the permitting  
23 process in years past should be impeded to the  
24 maximum extent possible so that they will be  
25 stopped.

1 I think one fundamental question,  
2 Commissioner Geesman, that has to be addressed in  
3 the permitting issue is whether it is the role of  
4 regulatory agencies to facilitate responsible  
5 development of projects, or to prevent development  
6 at all costs.

7 There are people in various agencies who  
8 believe that their job is the latter. And I think  
9 in a balanced approach that there can be progress  
10 made that certainly does respect things. And I  
11 think Elk Hills is an example of that. We have  
12 7000 of our 47,000 acres set aside as habitat.  
13 And we've done that voluntarily.

14 So, it's not, you know, it's not a  
15 matter of I think some of the age-old views of  
16 industry and the guidelines. There's still  
17 certainly capitalism unbridled concerns that all  
18 of us would have.

19 But at the other extreme I think we have  
20 to address honestly have we given regulatory  
21 authority over to a small minority, because every  
22 single agency has to sign off. And anyone who  
23 fails to sign off kills the project.

24 COMMISSIONER GEESMAN: Thank you.

25 PRESIDING MEMBER BOYD: Thank you, John.

1 MR. ALLEN: Thank you.

2 PRESIDING MEMBER BOYD: Next, Mr. Gene  
3 Voiland, AERA Energy. Actually, Gene, the card  
4 says you're representing a lot of folks, so I'll  
5 let you elaborate on that.

6 MR. VOILAND: Yes, I am. First off,  
7 thank you for having me today, and having us. I'm  
8 not going to repeat all the things that my  
9 colleagues have said, so I'll spare you that.

10 I am Gene Voiland. I'm the President  
11 and CEO of AERA Energy. We produce about a third  
12 of the oil in California, so we're a big company.  
13 I'm also on the Board of WSPA, Board of Directors  
14 of WSPA. And I'm also the incoming chair of the  
15 State Chamber of Commerce for January 2005. And  
16 the Chamber represents about 13,000 companies all  
17 together.

18 So I'm really here today to talk not  
19 just from my industry's perspective, to repeat  
20 that, but more to talk about just from what I  
21 consider to be a broad policy and strategic  
22 perspective. And I've talked a lot to  
23 Commissioner Boyd in the past about this. But  
24 that's where I'll be coming from. Ultimately this  
25 affects the quality of life of all the

1 Californians.

2 I'll talk about three things which I'll  
3 get to in a moment. But one thing I was struck by  
4 is on page 3 where you make a quote talking about  
5 how energy is going to grow. And the comment is,  
6 controlling that growth in energy use is critical  
7 to the state's future.

8 And I really stumbled when I saw that  
9 word. Because I doubt whether an organization, no  
10 matter how good they are, can control. And if  
11 that's the context that's set, I think you're, you  
12 know, in trouble is what it boils down to.

13 So, I would talk more in terms of, you  
14 know, managing that growth. And it's important in  
15 my mind because it does set a context of where  
16 you're coming from. And so that's just, that's a  
17 comment.

18 My three things that I want to talk  
19 about. First off, the state is short of capacity  
20 in many major commodities, and that's not an  
21 accident. That's by choice.

22 Secondly, like John talked about, the  
23 state has set a policy to rely heavily on natural  
24 gas. And it's particularly concerning because in  
25 my opinion you don't have a supply, a long-term

1 supply.

2 And finally, I believe from a policy  
3 perspective the state has tried to shield the  
4 voter from the true cost.

5 So, let me talk about capacity first.  
6 The failure to invest in infrastructure. Some  
7 have a mistaken belief that this will discourage  
8 growth. And the reality is, in my opinion, that  
9 it will discourage productive job growth because  
10 the people who are being gouged and who do use a  
11 lot of energy and provide jobs have a choice to  
12 leave the state. They will leave behind the  
13 people who just do their thing, and as long as  
14 they have babies we will have growth. And I think  
15 that probably will be a continuing trend.

16 The result will be what, in my opinion,  
17 we have today, is the volatility, the spot  
18 shortages, and high prices.

19 Again, we got here by choice. And I  
20 mentioned that, you know, we had a tremendous  
21 infrastructure investment in the 1960s and so on  
22 where we've built way more capacity. And what we  
23 have done is we have used that in a broad range,  
24 we have used that capacity up in a broad area.

25 Water, gasoline, natural gas,

1 electricity, roads, you know, they're all tight.  
2 So this is a broader problem than just an energy  
3 issue.

4           Ironically, crude oil is one of the few  
5 commodities that doesn't face this because it can  
6 come in on boats. But it's hurt by the fact that  
7 you have refining capacity problems which have  
8 already been talked about.

9           I was just in Houston the other day.  
10 There was 52 cents a gallon difference in gasoline  
11 prices. And I would argue there's some reasons  
12 for clean gas and so on that are high, but it's  
13 not 52 cents worth. It is a supply capacity  
14 problem, a demand problem.

15           So I think the key is that we have to  
16 wisely, you have to, all of us have to wisely  
17 encourage investment in capacity. Economic  
18 conservation is absolutely critical. It's a  
19 foundation, has to -- or the conservation of  
20 energy has to be there. We had great strides in  
21 the past, but it's one leg of the stool. It's not  
22 all of it.

23           And what's happened is that we're  
24 relying on it to handle too big of a chunk of it.  
25 And if that happens, we get in a position we are

1 today.

2 Again, I think controlling growth in  
3 energy, setting that context up risks telling the  
4 investors I'm going to invest in something that's  
5 just going to be overhang. So it does send a  
6 message; it does send a signal.

7 The second thing I have is natural gas.  
8 And to me this is glaring. We can't have a policy  
9 that encourages natural gas growth, you know, the  
10 use of natural gas without having a policy to  
11 encourage its supply.

12 The big problem with natural gas is it  
13 is a regional commodity at this point in time.  
14 It's not a world commodity. And so anything that  
15 is a bulk-anized economic system is going to have,  
16 by definition, more volatility. So in my opinion,  
17 one key thing the Energy Commission needs to do is  
18 to adopt a policy to make natural gas a world  
19 commodity, bigger than a regional.

20 One of the legs to that stool is LNG.  
21 And it has to do with the permitting; it has to do  
22 when people come in, the Commission should say,  
23 this is important, we're going to use natural gas,  
24 and we're going to build the capacity to do that.

25 Now, that's easy for me to sit here and

1 say, but until that happens you're going to have  
2 this volatility and these shortages as we get  
3 droughts, as we get heat waves, as we get cold  
4 waves, the whole business, when you're sitting at  
5 the end of the pipeline, if you will. So, we have  
6 to be part of a bigger thing.

7 The last thing is a key element to  
8 managing demand, in my opinion, is to spread the  
9 cost to those who actually use it, who actually  
10 use the very expensive electricity and so on.

11 The real person on the margin in the  
12 summertime is the household air conditioner. It's  
13 not the chemical plant, it's not the aluminum  
14 plant, it's not the manufacturing plant. It's  
15 really that peak demand is caused by the people  
16 who turn on their air conditioners when it's 105  
17 degrees out there.

18 There is a huge cost to buy that  
19 incremental power. To me right now the policies  
20 do not send that signal to the people who are  
21 using that power. And they see it as not costing  
22 extra money, and there is absolutely no reason to  
23 reduce their consumption when they are really the  
24 people on the margin.

25 So, I recognize that's very hard to do



1 politically, but the fact of the matter is that's  
2 it. Your report addresses some of that, but to me  
3 if somebody has to pay 50 cents a kilowatt hour  
4 for that hour they're going, and they see that on  
5 their bill, it will change behavior very quickly.

6 So, with that, I would urge you to look  
7 at your report and really understand, does this  
8 address the key energy dilemmas. And without  
9 being disrespectful, I worry that that doesn't  
10 come out in the report. That there isn't enough  
11 hard hitting saying these are the few critical  
12 things that we're really going to work on and  
13 really do.

14 If I were in the spot, for what it's  
15 worth, I would seriously think about the capacity  
16 issues and the other things that I've talked  
17 about. So, I know it's tough. It's very  
18 difficult. It's a dilemma to do it, but I think  
19 if we don't do it now we risk, you know, creating  
20 another energy crisis.

21 So, thank you very much for your time.

22 PRESIDING MEMBER BOYD: Thank you, Mr.  
23 Voiland. Thank you for pointing out the way that  
24 some folks will read the word controlling on page  
25 3. I think we'll need to talk about that.

1 I think a lot of us think about  
2 efficiency, price signals and what-have-you, when  
3 you deal with controlling, but it does have other  
4 connotations. So, appreciate that.

5 Well, I just -- I appreciate your  
6 comments in the natural gas area. And I don't  
7 think that we have differing views. So perhaps  
8 you shed a little additional light on the world  
9 commodity question that will cause me to think a  
10 little bit more about that issue.

11 And demand and price signals, well,  
12 we've tried to address that. And maybe I should  
13 let Commissioner Geesman, who I lean on heavily,  
14 is in the electricity area, to speak to that a  
15 little bit.

16 COMMISSIONER GEESMAN: I think we picked  
17 up your message. And we have underway a process  
18 with the Public Utilities Commission that  
19 currently is in a pilot stage this past summer;  
20 then there's a second year of a pilot testing next  
21 summer, as well, in the residential and small  
22 commercial area to try and bring real-time  
23 pricing, or what they're actually calling critical  
24 peak pricing tariff to bear.

25 There are going to be some important

1 issues addressed at the point in time when that  
2 pilot is sufficiently evaluated to determine what,  
3 in fact, it can learn. There are going to be some  
4 critical questions as to whether a critical peak  
5 pricing tariff should be mandatory on all  
6 customers; or whether it should be the default  
7 tariff, and customers be allowed to opt out.

8 And I think there is an overriding  
9 commitment, certainly on the part of the Energy  
10 Commission, and I believe on the part of the  
11 Public Utilities Commission, that we need to bring  
12 a little bit more truth in pricing to the  
13 customer's bill. Because currently the way we do  
14 things is a hide-the-ball mechanism that  
15 encourages consumption when we don't need it at  
16 all, or when we can least afford it. And masks  
17 the true price to the customer. Doing that  
18 through an elaborate form of cross-subsidies.

19 So I think that the two regulatory  
20 agencies have gotten your message there, and are  
21 responding to it.

22 I also am under the understanding that  
23 the 33,000 meters that were purchased and  
24 installed in large customers' facilities here over  
25 the last two years are also being evaluated for

1       whatever changes in the existing time of use  
2       tariff would be desirable.

3               But I believe you're right, the real  
4       peak problem is a residential air conditioning  
5       problem. I certainly agree with what you said  
6       about natural gas. And I think as Commissioner  
7       Boyd indicated at the very outset of today's  
8       session, I believe we're all on the same page as  
9       it relates to the necessity of creating the global  
10      commodity market in natural gas. I think  
11      California and its economy will benefit greatly if  
12      we do that.

13              As it relates to capacity shortages,  
14      we've tried to make them the central theme of what  
15      we're doing. We've had some limited success here  
16      over the last several years in the electricity  
17      area, the last five years. And, you know,  
18      unfortunately I've only been here a year so I  
19      can't claim credit for it. But in the last five  
20      years my colleagues have actually approved 41 new  
21      power plants, a capacity of about 16,000  
22      megawatts. And in the last three years alone 9500  
23      megawatts have actually come online. That's the  
24      largest modernization of our electricity  
25      generating fleet that has ever occurred in a five-

1 year period in our state's history.

2 Now, that's occurred for a couple of  
3 basic reasons, in my judgment. One is for a fair  
4 portion of that time we were allowing actual  
5 market signals to work. And developers of power  
6 plants could see what prices were and had the  
7 ability to market their output to willing  
8 customers who wanted to enter into contracts for  
9 that output.

10 Another reason that came about a little  
11 bit later in that period was, I believe there was  
12 a regulatory and political consensus in the  
13 legislative and executive branches that said we  
14 need to do this or we're in trouble. And we'd  
15 better get moving to address these needs.

16 Hopefully that same consensus can be  
17 applied to some of the other infrastructures where  
18 we face similar capacity problems. And I don't  
19 think we're out of the woods yet on electricity,  
20 either. We've permitted 16,000 megawatts, but  
21 we've got between 6000 and 7000 megawatts of  
22 permitted plants that I would characterize as  
23 stranded plants right now, or stalled plants.  
24 Because we have not created a market mechanism  
25 that will supply the appropriate signals that will

1 allow those projects to actually be financed. And  
2 I think every one of them should be constructed.

3 That's a large portion of the rationale  
4 for our belief, which I know the State Chamber  
5 have supported it, reinstating a form of direct  
6 access that is now referred to in Sacramento as  
7 core/noncore that would allow large customers the  
8 ability to contract directly with power plant  
9 owners for their supplies of electricity.

10 So, I say, as a liberal Democrat, I'm  
11 completely taken aback that I'm in agreement with  
12 your three principal points.

13 (Laughter.)

14 COMMISSIONER GEESMAN: But I do think  
15 that it represents a growing consensus within  
16 state government. And I'd appeal to you and your  
17 industry to force us to stick to that in the next  
18 several years ahead.

19 MR. VOILAND: Thank you. I appreciate  
20 that you recognize there's a, you know, a  
21 tremendous difference between an approved plant,  
22 approved permit and an actual plant sitting there  
23 generating electricity.

24 And to the extent that the Commission  
25 can cause the right incentives, you know, we don't

1 want to break the bank, but you've got to have  
2 incentives to provide this capacity. And if it's  
3 simply the last plant online is the one that  
4 cycles, it never gets built.

5 And so the fact that you've got that  
6 7000 megawatts out there says that somebody saw a  
7 reason to do that. And to me it would be  
8 important to look and see that. And, of course,  
9 I've got one of the ones you said, you know, it's  
10 stranded. I say it's on ice. You know, it's not  
11 going anyplace because you just can't see the  
12 fundamental economics the way the whole thing is  
13 structured.

14 So, to me that's something that really  
15 needs to be looked at. So, thank you for allowing  
16 me to be here.

17 COMMISSIONER GEESMAN: Thank you very  
18 much.

19 PRESIDING MEMBER BOYD: Mr. Voiland,  
20 there's been some changes in one of our sister  
21 agencies that have assisted us in some of these  
22 areas that I would say one of our Commissioners,  
23 Commissioner Rosenfeld, has long tried to deal  
24 with, sending price signals and what-have-you.  
25 And now we have a receptive audience within the

1 government agencies that have to implement this.

2 So, as Commissioner Geesman indicates,  
3 we've launched those kinds of experiments. We are  
4 still dealing with the hangover that we gave  
5 ourselves as a result of the electricity crisis,  
6 which makes it very hard to move aggressively like  
7 some of us would like to into some of these areas.

8 Lord knows, as one who served on the  
9 generation team during the crisis, I was beating  
10 my brains out for self-gen, cogen. But, it was a  
11 very difficult, uphill struggle. And now I think  
12 the climate is a lot better to address some of  
13 those things. While we still dig ourselves out of  
14 the consequences of the situation that we found  
15 ourselves in.

16 Anyway, I look forward to working with  
17 you continually in the future. Particularly as  
18 you have to spend more time in Sacramento with the  
19 Chamber of Commerce. I think your timing is  
20 wonderful to work with us on some of this. Look  
21 forward to that. Thank you.

22 MR. VOILAND: Thank you.

23 PRESIDING MEMBER BOYD: Next speaker  
24 will be Mr. Les Clark, IOPA, which is Independent  
25 Oil Producers Association.



1 MR. CLARK: Good morning. My name is  
2 Les Clark. I'm the Executive Vice President of  
3 the Independent Oil Producers Agency. I, too,  
4 would like to welcome you to Bakersfield.

5 I'd also want to remind you the amount  
6 of oil that's produced in this County, and the  
7 main concerns that I have will be talking about  
8 oil, and the production of oil.

9 The first time I read the report, your  
10 policy report, as I say I was fairly upset, to say  
11 the least, with regards to no encouragement, as I  
12 could see in the report, for any domestic  
13 production increase in our crude oil abilities.  
14 Real concerned about that.

15 So, I laid the report down, discussed it  
16 and looked at it a little bit more. Then I read  
17 your disclaimer on the front and I said, well,  
18 maybe there's still a chance.

19 So I went back and read through the  
20 report, and there was a couple sentences in there  
21 dedicated to we want to encourage the production,  
22 domestic production.

23 When I say that, most of our production,  
24 the people I represent in IOPA, we've been in  
25 business since 1904, basically crude oil, 13

1 gravity. And every once in awhile we're lucky  
2 enough to come up with a couple tanks of natural  
3 gas, if you will. But we're certainly not big  
4 producers. We're users. And we're also users of  
5 electricity.

6 And, you know, you throw all three  
7 together and try to work together to make sure  
8 that you produce the production that you need to  
9 do. These are all very important in our business.

10 Again, the thought process of working  
11 together, I'm certainly for that. I get a little  
12 leery when a government body comes down and says,  
13 we're going to help you. I've been told that  
14 several times over the past couple years. And I  
15 think one of the most recent examples is CalEPA  
16 and their inability to do what they're supposed to  
17 do to begin with.

18 So, when we talk about permit  
19 streamlining -- let me regress a little bit to  
20 permit streamlining that you brought up -- I  
21 really appreciate that -- in the opening comments  
22 by your staff member back here, that gave me a  
23 little bit more confidence that we are looking at  
24 some of these issues. But as far as permit  
25 streamlining, we've been promised that for years.

1           We are for conservation; we are for  
2   renewable resources. Most of the time when I'm  
3   talking to folks, as far as the renewable, if I  
4   was king I would say right now, you get 20 percent  
5   of the market. But we all know that the  
6   infrastructure's not there.

7           So to continue to discourage or not  
8   encourage the producer to produce more oil or  
9   natural gas, I think, is not something that makes  
10  much sense. And, again, I support those folks out  
11  there doing that.

12          With regard to the permit streamlining,  
13  I don't think it stops just with a couple of your  
14  sister agencies. I think it also involves the  
15  federal and local level. When we start getting  
16  into some of these issues, and believe me, a lot  
17  of these issues weren't created by industry.

18          When we talk about refineries and the  
19  one time I did work for some of the folks, a  
20  little bit bigger, but they've just given up on  
21  that. I mean how do you permit a refinery in the  
22  State of California? I mean everybody -- you  
23  know, you say, well, they're not doing it. And  
24  we've had that conversation before. It's  
25  impossible.

1           I think the only reason we got through  
2       the electricity crisis was because it was  
3       definitely a crisis. And we're in the same place  
4       probably with some of our refined products as we  
5       were then.

6           I think when we talk about it and look  
7       in your report, a couple other things that I  
8       wanted to mention. I concur with the testimony,  
9       of course, provided before me. These folks are  
10      sharp folks and they know how things are working.  
11      And I certainly want to support their comments.  
12      And we usually agree with them 95 percent of the  
13      time, so, again, mom-and-pop operators, we produce  
14      a barrel and a half, two barrels a day. I think  
15      our biggest producer is 1000 barrels a day.

16           When we get down to streamlining again,  
17      when you look at the streamline it's not as easily  
18      done. We're all working together supposedly. But  
19      go into the Air Resources Board, for example, and  
20      say what are you doing with this natural gas deal.  
21      You're being a stumbling block because we have  
22      some gas that we can supply, albeit small, a small  
23      amount.

24           But their thoughts were, well, no, it's  
25      not quite the right Btu value. So what takes

1 place? In the middle of the crisis to take care  
2 of electricity, the Air Resources Board was  
3 saying, well, we're not sure we're going to accept  
4 this gas. Now, we're still going through that.

5 And on my statement at the time, I said,  
6 if we don't start working together on some of  
7 these natural gas production issues, the next time  
8 we're up here in the wintertime we're going to be  
9 tearing up chairs just to keep warm. And that's  
10 where we are. And I truly believe that.

11 So, we need to work together. I think  
12 on your water issue, I think the state is --  
13 what's the best way to put this -- how many of you  
14 know about CalFed and the supply of fresh water,  
15 you know, to meet the needs of California? How  
16 many years have we been promised that this is  
17 going to take place?

18 My thought process of CalFed, it's like  
19 Jabba-the-Hut, just keeps wallering, but it's not  
20 going very many places. So, these are the kind of  
21 the issues that we need to work on together.

22 And I'm committed to do that. And I'm  
23 in a lot better mood now. But I can still see in  
24 the report I'd like to be mentioned at least two  
25 times, in production, domestic production is

1 important. And we're going to encourage that.

2 Now, how do you encourage that? We're  
3 dealing with -- I think you mentioned 180  
4 different regs -- that's even more despondent. My  
5 number is about 147, and about 50 different  
6 agencies.

7 So, I mean, the challenge is clear, we  
8 need to work together. And, you know, every time  
9 I look at the words California Energy Commission,  
10 I look at that as being folks that would want to  
11 work with us to make sure that we insure energy as  
12 best we can for the citizens of the State of  
13 California.

14 Those are my comments.

15 PRESIDING MEMBER BOYD: Thank you, Les.  
16 Commissioner Geesman.

17 MR. CLARK: Thanks for being here.

18 PRESIDING MEMBER BOYD: Thank you very  
19 much.

20 COMMISSIONER GEESMAN: Thank you.

21 PRESIDING MEMBER BOYD: Neil Burgess,  
22 Kern River Cogen.

23 MR. BURGESS: Good morning. My name is  
24 Neil Burgess. I'm here today as a representative  
25 of Kern River Cogeneration Company. You heard a

1 lot of about cogeneration. You've admitted that  
2 yeah, it may have been an oversight within the  
3 IEPR. But I still would like to give you a few  
4 ideas or thoughts we have.

5 As I read through the IEPR I felt it  
6 went a long way in creating a complete energy  
7 policy for the state. In at least providing a  
8 direction where people can start to look at it to  
9 see where we're going.

10 The strong statements and proposed  
11 policy regarding the continued harvesting of  
12 energy efficiency opportunities in providing  
13 reliable and affordable electrical power and  
14 natural gas supplies is something that will help  
15 the state satisfy its future energy demands.

16 These goals are very much in line with  
17 the policies that the CEC supported in the past.  
18 In fact, California's led the nation and the world  
19 in adopting policies that encourage the  
20 development of renewable resources such as  
21 geothermal, wind, and solar, and alternative  
22 technologies such as cogeneration.

23 And cogeneration is what I wanted to  
24 highlight today, obviously. Cogeneration, the  
25 last topic, fits the report's goals, and is a

1 proven technology that is reliable, cost  
2 effective, and environmentally sound. However, I  
3 did not see any direct discussion of cogeneration  
4 within the report. It was sort of like a set-  
5 aside as something in the past. But it's out  
6 there; it exists today, and there are probably  
7 future opportunities that we can develop.

8 Cogeneration is the production of two  
9 products, electricity and thermal energy, such as  
10 steam, from the single source fuel. The power and  
11 steam produced is then used in industrial  
12 processes resulting in a very efficient  
13 utilization of fuel, as well as it reduces air  
14 emissions.

15 CEC's support of cogeneration helped the  
16 state successfully construct cogeneration  
17 resources in the past two decades, attracting  
18 significant private investment. Today as a direct  
19 result of these policies, cogeneration supplies  
20 over 12 percent of California's total demand for  
21 electricity.

22 The cogeneration process here in the San  
23 Joaquin Valley, much as what we've heard by the  
24 previous speakers, and especially here in Kern  
25 County, is utilized extensively and is relied on



1 to efficiently produce oil and other products.

2 It has proven to be one of, if not the  
3 most, economical methods of generating steam for  
4 producing the heavy crude oil which is prevalent  
5 in Kern County.

6 Producing two energy products from a  
7 single source saves the natural gas imports that  
8 we've heard previous speakers about. It reduces  
9 the amount of air pollution that would have been  
10 produced if these two products, the electricity  
11 and steam, had been produced separately in two  
12 different plants.

13 Cogeneration benefits California by  
14 enhancing energy efficiency, much in line with the  
15 IEPR. However, cogeneration is unique in that it  
16 essentially serves two customers, and it sometimes  
17 has two masters. A power off-taker and a thermal  
18 energy off-taker.

19 Since cogeneration for thermally  
20 enhanced oil recovery operations generally  
21 requires the ability to produce steam on a  
22 continuous basis, many cogeneration facilities  
23 require the ability to sell their power on a must  
24 run basis.

25 Recently, due to the unsettled energy

1 policies in California, these cogeneration  
2 facilities have faced apathy by the utilities to  
3 take this power and to sign long-term must-run  
4 type of contracts. They are not able to renew or  
5 sign new contracts with some of the investor-owned  
6 utilities. The IOUs only want to contract for  
7 fully dispatchable power. This type of  
8 contractual arrangement may lead to many of these  
9 cogeneration facilities ceasing operation in the  
10 future.

11 If these facilities cease operation the  
12 cogeneration benefits will be lost. These  
13 benefits include not only the loss of  
14 cogeneration's energy efficiency, but also jobs  
15 and tax revenues that are a direct result of  
16 the -- and an indirect result of cogeneration's  
17 benefits to their host and private enterprises.

18 The state's transmission grid is  
19 enhanced by cogeneration, since in some respects  
20 it's distributed throughout to different various  
21 industrial locations within the state. Also  
22 locating generation near load, such as their  
23 thermal host, reduces transmission line losses  
24 that would otherwise result if the power had to be  
25 imported from a distant generator.

1           The California Energy Commission should  
2     include in this report, and also continue from  
3     their past policies, to promote the development of  
4     and reliance upon cogeneration. The CEC should  
5     recommend that the state's mandate to increase  
6     renewable generation sources be amended to include  
7     the purchase of cogeneration by the investor-owned  
8     utilities.

9           Thank you.

10          PRESIDING MEMBER BOYD: Thank you very  
11     much. Any questions, Commissioner Geesman?

12          COMMISSIONER GEESMAN: Do you have a  
13     sense as to the timing of when the existing must  
14     run contracts are expiring and up for renewal?

15          MR. BURGESS: Well, the Kern River  
16     Cogeneration Company that I represent today, it's  
17     a 300 megawatt facility, expires in August of  
18     2005. What's important for us is to determine  
19     what our future's going to be like through either  
20     renegotiation or establishing -- fitting into the  
21     new electricity policy within the state.

22          One of the things we have to do here in  
23     the San Joaquin Valley is install additional air  
24     pollution control equipment which we are prepared  
25     to do. We've done that in the past, even under

1 the existing contract. We've reduced emissions  
2 throughout the operation of this facility, or life  
3 of this facility.

4 So, we are one of the larger ones. We  
5 are also one of the first to come up to the end of  
6 their contract. And, as well as we have some  
7 other sister plants, such as Midset Cogeneration  
8 Company, a smaller plant. And it expires in May  
9 of 2004. And there are other facilities out  
10 there. So, it's happening and it's happening  
11 today.

12 COMMISSIONER GEESMAN: And these  
13 contracts are with Edison?

14 MR. BURGESS: Some of them are with  
15 SoCal, Southern California Edison; some of them  
16 are with PG&E. Kern River is with SoCal Edison.  
17 Midset Cogeneration, the smaller cogeneration, is  
18 with PG&E.

19 COMMISSIONER GEESMAN: And do the  
20 contracts typically contain renewal clauses, or is  
21 it the sort of thing that the utilities would say,  
22 well, we have to go to a new procurement  
23 solicitation for?

24 MR. BURGESS: They do not have renewable  
25 clauses in them. I think the utilities want us to

1 go out to the whole overall procurement process as  
2 much as what Commissioner Boyd mentioned earlier,  
3 the procurement process in the CPUC.

4 What's frustrating to that is most of  
5 the utilities procurement for plans for the  
6 future, the long-term plans, do not have a mention  
7 of QF --

8 COMMISSIONER GEESMAN: Yeah.

9 MR. BURGESS: -- cogeneration. And  
10 that's somewhat limiting our discussions.

11 COMMISSIONER GEESMAN: Thank you.

12 PRESIDING MEMBER BOYD: Thank you very  
13 much.

14 MR. BURGESS: Thank you.

15 PRESIDING MEMBER BOYD: Hal Romanowitz,  
16 Oak Creek Energy Systems.

17 MR. ROMANOWITZ: Good morning, Chairman  
18 Boyd, Commissioner Geesman and staff. My name is  
19 Hal Romanowitz. I'm here in several roles. I'm  
20 President and Chief Operating Officer of Oak Creek  
21 Energy. I'm President of the Kern Wind Energy  
22 Association. And I'm an Executive Committee  
23 member of CalWEA. Also, I'm the originator of the  
24 transmission map for the Path 26 route that has  
25 been kind of generally is being floated around

1 quite a bit now. And we wanted to talk a little  
2 bit about that since it relates here.

3 PRESIDING MEMBER BOYD: And now I  
4 recognize seeing you in Sacramento.

5 MR. ROMANOWITZ: You did, yes. Thank  
6 you very much.

7 Just as a little bit of background,  
8 KWEA, Kern Wind Energy Association, is the second  
9 oldest wind energy association in the United  
10 States. It was formed shortly after the American  
11 Wind Energy Association.

12 The Kern Association really covers the  
13 interests, the problems and issues of this  
14 particular location. And eastern Kern County is  
15 the very prominent, dominant wind resource for the  
16 state.

17 In the California Energy Commission  
18 renewable energy report, the preliminary report at  
19 least, Kern resources are evaluated to have 42  
20 percent of the plausible resource for renewable  
21 energy for the whole State of California. So,  
22 what is here is a very, you know, a very  
23 significant resource that has significant impact  
24 for the whole state.

25 That investment to develop what is

1       considered to be the plausible; and the plausible  
2       is about 60 percent of what we believe is the  
3       potential. The development of the plausible will  
4       result in an investment in eastern Kern County of  
5       in the order of \$4- to \$6-billion for the  
6       renewable energy projects, and for transmission.

7               So, it's a very very major economic  
8       impact into eastern Kern County. And one of the  
9       nice things about it is that because of the  
10      significant impacts there is a lot of support,  
11      broad support to encourage that to develop. There  
12      is support to facilitate the transmission  
13      facilities and so on.

14             So I think while it's large, it also is  
15      something that can come soon. If you accelerate  
16      the energy plan as you're talking about Kern  
17      County could be ready. There is substantial  
18      resource that is sitting idle because the  
19      transmission bottleneck cannot be broken. And  
20      that's really a very significant thing. We  
21      appreciate the effort that a number of you have  
22      helped with so far, but this still is a really  
23      major major thing to break the transmission  
24      bottleneck.

25             Our company, for example, has wind

1 turbines sitting idle that we cannot connect to  
2 the grid because of the impasse on transmission.  
3 The transmission problem has been here since 1986,  
4 and the rules for getting transmission expansion  
5 mean that essentially the first guy out of the box  
6 to try and get an upgrade to the transmission  
7 system has such a tremendous bubble to break and  
8 to carry that it just is totally infeasible to do  
9 it. And it's really a major problem as it needs  
10 policy help to move this forward.

11 There is, with the SB-1078, the  
12 implementing rules of that, there was the backstop  
13 legislation on transmission, backstop provision.  
14 That needs to be implemented in the eyes of the  
15 utilities, to get SCE and PG&E to acknowledge and  
16 adopt that so that they do the upfront funding.  
17 And that's still a major hurdle that has to be  
18 broken, and the situation moved forward.

19 There has been exchange, most recently  
20 with CalWEA and the PUC with SCE participating and  
21 just not acknowledging what the rules are yet. So  
22 there is a need for a policy push to get policy  
23 into reality so that the bottlenecks that impact  
24 this area can be broken. It's really a very  
25 significant thing.



1           As a little bit of additional  
2 background, the Tehachapi Wind, and to a lesser  
3 degree, Altamont Wind, in the very early '80s  
4 served as the model for wind energy project  
5 development. And that model was refined as the  
6 turbine technology moved forward into the mid '80s  
7 and late '80s.

8           And the California model for wind  
9 development has been now adopted worldwide. And  
10 as you know in Denmark, Germany, Spain, India,  
11 wind is just mushrooming. And while California  
12 showed everybody how to do it, and we do have some  
13 very significant successes with repowerings that  
14 we're doing under very difficult conditions, the  
15 rest of the world has moved on and mushroomed.  
16 And today there is enough wind energy being  
17 generated by the California model to supply most  
18 of California's energy.

19           You know, if we could take all of the  
20 wind energy projects now operating throughout the  
21 world, move them back to where the concept  
22 originated, you'd have way more than 50 percent of  
23 California's energy right there. So it's sort of  
24 time to, you know, bring the concept back home and  
25 recognize the impact that wind can play in

1       reducing the consumption of natural gas.

2               And there's a natural gas problem,  
3       instead of bringing in natural gas, what you can  
4       do is displace it for its better uses by taking  
5       the resource that is here and accelerating its  
6       development.

7               And I think that you talk about this a  
8       little bit in the report, but I think that it  
9       would be appropriate to emphasize that more and  
10      emphasize, you know, the significant amount of  
11      resource that is here, that it can make a  
12      significant dent in the natural gas problem.

13              I would also second the comments of the  
14      representative of Kern River in the difficulty of  
15      getting contracts that work. That there is a  
16      major disconnect between what the utilities are  
17      trying to force down our throat, and what we need  
18      to have viable projects that are realistic to  
19      renewable energy and what worked with the system.

20              And all that you have to do is look to  
21      the Mountainview application that SCE has put in  
22      and the rules that they are proposing for  
23      themselves. And if you allow those rules for  
24      renewable energy you'd have, again, a great  
25      situation.

1           So, you know, it's clear that the rules  
2       can work; the utilities are proposing them for  
3       themselves. But when it comes to us being able to  
4       get them, we just can't get them. It's an  
5       impossible roadblock. The barriers are great.

6           We personally have been negotiating  
7       extensively and just making almost no headway --  
8       very frustrating, you spend a lot of time  
9       negotiating, thinking you're getting somewhere,  
10      and then, boom, a brick wall again. And we need  
11      the opportunity to open the market; we need  
12      transparency that it is -- you know, that 9/11 has  
13      been used as an excuse, other things have been  
14      used as an excuse to put a fog over the entire  
15      electric market and electric transactions and  
16      what's moving forward in California.

17          And the lack of transparency is creating  
18      a major problem that is blocking the resource from  
19      going forward. And from a policy standpoint I  
20      think we need to look very very seriously at  
21      creating transparency. That contrary to what some  
22      people suggest, transparency generally is good. A  
23      democratic system works well when you have lots of  
24      transparency.

25          And we just want to encourage that very

1       strongly, and get a reversal of some of what's  
2       going on.

3               If you look at the recent draft staff  
4       report from the Renewable Energy Committee on the  
5       development of renewable energy in California, the  
6       one that's just come out that comments will be  
7       going in on shortly, there's a new section in that  
8       that I think is really quite perceptive.

9               It's clear that the staff doesn't quite  
10       understand the issues yet. They're extremely  
11       perceptive on it, but they don't understand all  
12       the background. But they've sure hit on the  
13       point. And they've done a very good job of  
14       uncovering the point and bringing it into focus.  
15       And it's an important one for you to consider as  
16       you look at how you open the market for renewable  
17       energy, cogen, all this thing going forward.

18              And in that report they show that the  
19       typical bid prices in California for renewable  
20       energy, as to the patterns of where they are. And  
21       they show the patterns of what bid prices are  
22       throughout the rest of the country. And they've  
23       done their own analysis of where they think costs  
24       should be with and without production tax credit  
25       benefits. And there's a significant disconnect.

1           The only suggestion they have is that  
2       it's maybe land costs are different here. Wrong.  
3       The difference is that the oppressive rules of the  
4       market, the lack of transparency, the lack of fair  
5       contracts, the lack of access is creating barriers  
6       and hurdles and penalties that are very costly.

7           Rules of construction are conceptually  
8       good, as a practical matter fatally flawed. They  
9       create an extra half a cent construction if you're  
10      going to have a CEC incentive. Not because of the  
11      wages paid to the people, but because of the  
12      backing, the rules behind that as to how it  
13      impacts projects that are built by nonunion labor,  
14      which is common, for example, to Kern County.

15          So that you have the rules needlessly  
16      are impacting costs without any benefit really to  
17      anybody. So I think that there needs to be some  
18      improvement to help that come along. And that's  
19      an important step.

20          I would suggest that the concept of  
21      using the standard offer contract be seriously  
22      considered. I know that that's sort of negatively  
23      thought about in some circles, but the price of  
24      the standard offer contract could be set  
25      relatively low. Set it at what you think is

1       impossibly low. You might be surprised.

2               I think your staff did an excellent job  
3       of analyzing where costs should be. And if you  
4       set the standard offer contracts anywhere close to  
5       their analysis, and set them out there long enough  
6       so people could plan, organize their projects  
7       sufficiently, and break them loose without, you  
8       know, close shotgun timelines on projects, with  
9       enormous penalties for failing, you would -- I  
10      think you'd be amazed at what you would get.

11              Our company alone, and we're not one of  
12      the biggest, but we have over 600 megawatts of  
13      solid, good wind energy projects in the  
14      development pipeline that could come online in an  
15      orderly basis pretty quickly.

16              So there's a big opportunity, but you  
17      have to have a rational market so that you can do  
18      things on an orderly basis. We work well by  
19      getting out and getting things done. And you  
20      can't work in the shotgun, like is being set up.

21              For example, in the recent bid package  
22      from SCE there's a provision that if you hiccough  
23      one month on your capacity payment you have to pay  
24      them for 20 years of projected replacement costs.  
25      You know, it's totally crazy. You don't get paid,

1 and you must pay them to replace that. It's  
2 totally crazy. Just, you know, overly oppressive;  
3 it's the sort of thing that just doesn't work.  
4 We've got to be fair to everybody. We've got to  
5 be realistic and fair.

6 One thing that you totally fail to  
7 mention in the report, and I think that it needs  
8 to be in there, is some reference to bulk electric  
9 energy storage. That the technology in a  
10 significant way is much closer than you think;  
11 it's quite close.

12 The problem is a primary problem is that  
13 the market rules today block some of the good  
14 forms of bulk electric storage, than an  
15 independent project just really can't come into  
16 the system as the rules stand today. And with the  
17 others, there is tremendous resistance to allowing  
18 it to happen. We're moving forward with it, but  
19 we've got a shotgun to our head. We've had, you  
20 know, threats that one way or another that there's  
21 going to be a contractual violation here or there.  
22 We bring it on in existing projects. It's totally  
23 crazy.

24 Bulk electric energy storage would be a  
25 phenomenal benefit to the state, to all of the

1 problems affecting renewable energy, like the  
2 intermittency, like the transmission issues. And  
3 it should be grossly encouraged.

4 And, again, you set the opportunity and  
5 opportunities will be filled where there's basic  
6 technology. But it's very hard to do it on  
7 timelines; it's very hard to do it with oppressive  
8 conditions, particularly when it's an emerging  
9 technology.

10 I just want to mention one thing on our  
11 transmission map that some of you have seen in the  
12 Path 26 route that again there are a number of  
13 innovative things that can be encouraged by, you  
14 know, utilizing good maps, good studies, input  
15 from everybody.

16 And when you look at the proposed  
17 transmission that is planned for Tehachapi,  
18 essentially it's half of a parallel path for Path  
19 26. And there's, you know, two 500 kV legs coming  
20 up into Tehachapi. Well, instead you could just  
21 swing one around toward Bakersfield and you have  
22 most of a path over to Midway. And a parallel leg  
23 for Path 26 with a number of innovative things  
24 that could be done.

25 You have, you know, Magunden and the Big



1 Creek transmission problems, congestion. And that  
2 if you can get to open discussion on the issue  
3 there's some extremely interesting solutions that  
4 have been laid out on the table and objected to by  
5 certain parties. But there's some very good meat  
6 out there, some of the things that CalISO has  
7 suggested and other things that have come in the  
8 discussion of shifting energy between SCE and  
9 PG&E. And it would materially help the overall  
10 electric system in California.

11 And I think that we strongly suggest  
12 that there needs to be more effective central  
13 planning of the transmission so that you make a  
14 very good use of the facilities that are here, and  
15 the location of facilities throughout the state so  
16 that you minimize overall transmission costs,  
17 maximize flexibility and get a transmission system  
18 that really is sound with minimum added costs.

19 And I think the comments, as we say, are  
20 an attempt to try and help just a little bit to  
21 your report. I think my reading of the report is  
22 that you've done a quite good job in getting it  
23 started, but there's just a few things that need  
24 to be addressed additional. And I think with this  
25 report and the other reports that the Energy

1 Commission is doing, that it shows a lot of very  
2 good insight. We congratulate you on that.

3 PRESIDING MEMBER BOYD: Thank you, Mr.  
4 Romanowitz. You just happen to be also addressing  
5 the Renewables Committee here at the same time,  
6 so --

7 MR. ROMANOWITZ: I noticed.

8 PRESIDING MEMBER BOYD: -- serendipitous  
9 or what-have-you. Commissioner Geesman, any  
10 comments?

11 COMMISSIONER GEESMAN: Your last  
12 comments about the map, which I've not previously  
13 seen. Is all of that material entered into the  
14 docket of the PUC renewable transmission plan  
15 proceeding?

16 MR. ROMANOWITZ: Yes. The map appears  
17 to -- CEERT used it in their presentation at the  
18 last workshop, the one that was on the 23rd of  
19 September. And I'd be glad to get you some copies  
20 of it. I think that we've had some additional  
21 comments and discussion since then. There's been  
22 a few suggestions of a couple of alternatives that  
23 could be looked at from this.

24 But I'd be glad to get that to you and,  
25 in fact, the map I have here is not the latest

1 copy of it. I happened to get the wrong one. But  
2 I'd be very glad to get you the latest one which  
3 shows the full parallel path to Path 26.

4 And we've gone out; we've actually  
5 followed the route so that we know that there's a  
6 route that's there than can make it. And there's  
7 a second route that works, also.

8 So these are things that can be done,  
9 and people want to make them happen. And there  
10 are, you know, there are issues that have to be  
11 discussed and looked at.

12 One of the related things is on large  
13 bulk transmission lines in the state there is the  
14 limitation that CalISO puts on most of the lines  
15 related to 1140 megawatts for a single contingency  
16 and 1400 megawatts for a double contingency in  
17 generation. And that impacts, you know, how much  
18 can be carried on certain paths. And there's  
19 related issues.

20 We have ideas on how that can be  
21 mitigated. And actually we'll allow you to take  
22 existing transmission potentially and use it at a  
23 higher capacity level where some of these issues  
24 are currently limiting what can be done.

25 COMMISSIONER GEESMAN: And all of that

1 information is going into the PUC docket?

2 MR. ROMANOWITZ: It's going into the PUC  
3 docket; other of it is in the stakeholder process  
4 under CalISO. But we'd be very glad to get you up  
5 to speed with that if you'd like.

6 COMMISSIONER GEESMAN: I would  
7 appreciate it. A lot of us are waiting with bated  
8 breath for the PUC transmission plan to be  
9 published later this year.

10 MR. ROMANOWITZ: Right. The draft  
11 report is out on the 15th. And we'll see what  
12 that is, and then that'll have further comments.  
13 As you say it comes out later this year.

14 COMMISSIONER GEESMAN: Yeah. I would  
15 appreciate it if you could make that information  
16 available --

17 MR. ROMANOWITZ: Yeah. We'd be glad to  
18 do that and talk about it. You know, there are  
19 issues that are complex and it really needs to  
20 have debate. And what we have done is -- like I'm  
21 participating in every forum. I've actually  
22 joined WECC. I'm participating in WECC, I'm  
23 participating in the CalISO workshops, you know,  
24 at the CPUC.

25 We're spending a tremendous amount of

1 effort trying to pull these things together.

2 We've gone out. We're doing field surveys,  
3 ourselves, to map things that you can no longer  
4 get transmission routes. They're just not  
5 published. We're actually going out and mapping  
6 stuff so we can see what's there and figuring it  
7 out and relating it to what we know.

8 And there is also a tremendous need for  
9 SEEMS data, which is, you know, what each  
10 transmission line handles, what its load flow is  
11 so that you can see how you can utilize the  
12 transmission system.

13 For example, almost all transmission  
14 lines are substantially under-utilized. There's  
15 just a very small period of time when they're up  
16 at their maximum capacity. But that's considered  
17 reserve capacity. All of that other capacity is  
18 wasted. So there's a lot of little things that  
19 could be done that are, you know, they're not  
20 penny items. There is money associated with it,  
21 but they are things that are relatively small in  
22 the overall perspective that I think could be done  
23 on an orderly basis over some time that would  
24 really improve the system at a much smaller cost  
25 than the traditional costs of going out and seeing

1 if we're going to have enough transmission for the  
2 worst set of conditions. And then not allow other  
3 people to use that available capacity.

4 The WECC and the SEEMS working group is  
5 doing a great job on stuff throughout the western  
6 interconnect. But California is just not -- we're  
7 still having a very hard time getting that  
8 information. And that's crucial information; it's  
9 the sort of thing we talk about in transparency.  
10 It's badly needed information to help us plan and  
11 offer suggestions; figure out how we can make our  
12 things work.

13 Like just an example. I'm absolutely  
14 certain that the wind turbines that I have sitting  
15 idle in Tehachapi now can be utilized at least 90  
16 to 95 percent of the time to get the energy out.  
17 But I can't make that happen so far. And I've  
18 been working on it for a couple of years.

19 You know, so it's frustrating. But we  
20 are working on it. We're working cooperatively  
21 and we have at the utility level there's some  
22 people that are working very cooperatively and  
23 helpful. And we are making headway, but, boy,  
24 it's a tough, tough process. And you guys could  
25 sure help.

1 COMMISSIONER GEESMAN: We'll try to.

2 MR. ROMANOWITZ: Thank you very much.

3 PRESIDING MEMBER BOYD: Thank you.

4 Curtis Kebler. Kebler. I should have not taken  
5 my glasses off. Reliant.

6 MR. KEBLER: Commissioner Boyd,  
7 Commissioner Geesman and Advisors, thank you. My  
8 name's Curtis Kebler; I'm with Reliant Energy.

9 And I guess I would start by echoing the  
10 comments of not just the last speaker, but a  
11 number of the prior speakers about the issue of  
12 transparency and the importance of market rules.  
13 Because if those are restructured and we do have  
14 clear and transparent market rules, I think you  
15 will see a tremendous amount of interest and  
16 investment by the private sector in California's  
17 infrastructure.

18 And it's fascinating to me to sit here  
19 today and to listen to the discussion and see that  
20 the renewables community and the cogenerators and  
21 the merchant generators are all talking about  
22 similar things. We're talking about transparency  
23 and clear market rules.

24 Because what we're observing is a very  
25 concerning trend that we're going toward in a

1 sense of bifurcated market where we've got one set  
2 of market rules for the utilities and how they're  
3 conducting their business and resource  
4 procurement, and then a separate set of rules for  
5 everyone else. So I just wanted to echo that  
6 theme.

7 Also wanted to just thank you for  
8 hosting this meeting and for producing the report.  
9 I think it's very good and we do have some  
10 comments that we want to share today. We'll also  
11 be providing written comments next week. And so  
12 you'll see in those remarks some of the things  
13 that I talk about today.

14 I would like to focus really on two  
15 principal issues. The first is the report's  
16 treatment of existing generation resources and  
17 principally the gas-fired resources. And then the  
18 second topic is the issue of resource adequacy.

19 While the report encourages the  
20 development of new sources of clean, efficient  
21 generation, we believe it should also recognize  
22 the value and services provided by many of the  
23 existing generation resources, particularly gas-  
24 fired units.

25 We believe California consumers will



1 benefit most from an energy policy that relies on  
2 market forces to insure that an optimal and cost  
3 effective mix of new and existing resources are  
4 secured and committed to the state's load serving  
5 entities through appropriate contractual and  
6 ownership arrangements.

7 And if you'll note the graphic that I  
8 provided to you, it has really two pieces of  
9 information on it. I'll just show the audience  
10 this so they see what I'm referring to. We've got  
11 copies of this that we can provide to everybody.  
12 And you'll also see them in the written comments  
13 that we provide next week.

14 But essentially what we are showing here  
15 is a comparison of NOx emission rates for existing  
16 steam-fired gas unit and comparing those with new  
17 simple cycle gas turbine units. And then also  
18 combined cycle gas turbine units, new versions of  
19 those units. And then the bottom three bars  
20 address the heat rates for each of those types of  
21 machines.

22 And the point that we would like to make  
23 is the report, and this goes a bit to this notion  
24 of bifurcation, where the report seems to imply  
25 really two classes of resources in terms of gas

1 generation. Those that are old, dirty and  
2 inefficient; and those that are new, clean and  
3 efficient.

4 And I'd like to take just a minute and  
5 try to debunk the myth that the older units are,  
6 in fact, old, dirty and inefficient. And if  
7 you'll just note here on the top three bars what  
8 I've shown on the left side is really for  
9 Reliant's portfolio.

10 And what you'll see is compared to a  
11 simple cycle gas turbine the emissions rate, and  
12 these are expressed in pounds per megawatt hour  
13 here, what you'll see is for our portfolio, which  
14 is around 3500 megawatts of gas-fired generation  
15 located in southern California, the average  
16 emission rate is about .1 pound per megawatt hour.  
17 And that's slightly less than half of the emission  
18 rate of a new simple cycle gas turbine. So that's  
19 clearly important.

20 And then if you'll also note in  
21 comparison to a combined cycle, it is higher by  
22 some degree. But for the service duty that these  
23 existing plants provide, in comparison to a simple  
24 cycle unit, we believe they're significantly more  
25 environmentally friendly than a new simple cycle

1 gas turbine.

2 And if you'll note at the bottom it's a  
3 heat rate comparison. Again, we're showing the  
4 Reliant energy plants located in California; an  
5 average heat rate for our portfolio of about 10.7  
6 in comparison to a simple cycle gas turbine, which  
7 is about almost 10.9.

8 So both in terms of the emission levels  
9 of those existing plants, and in terms of the heat  
10 rate, the actual efficiency and the fuel  
11 consumption of those units, we believe the  
12 existing fleet of resources have benefits when  
13 compared to a new fleet of resources that are  
14 based on simple cycle technology.

15 I wanted to also mention in the report  
16 we noticed that the Commission's backup  
17 documentation there was a report that you  
18 developed that is entitled, Aging Natural Gas  
19 Power Plants in California. It was produced in  
20 July of 2003.

21 And in there you have an evaluation of  
22 the 25 largest gas-fired power plants in the  
23 state. And you note that about 80 percent of  
24 those have had advanced emission reduction  
25 technology installed on them. And that 80 percent

1 is roughly equivalent to what is the case for our  
2 portfolio.

3 So we would like you to recognize that  
4 the vast majority of the existing gas-fired units  
5 in the state have been retrofitted with upgraded  
6 emission control technology; and many of them --  
7 Reliant has spent about \$100 million on our  
8 existing fleet of resources -- not just with  
9 respect to emission reduction technology, but also  
10 advanced control technology.

11 So we've tried to make the units much  
12 more flexible and dispatchable for the grid  
13 operator to manage the load.

14 And if you look at the particular duty  
15 cycle that we're talking about here, it's really  
16 not baseload units. The units that we're talking  
17 about are more in the cycling and peaking type of  
18 service duty. And so these units would operate  
19 typically in the maybe 3 or 4 percent capacity  
20 factor range annually, up to maybe 25 percent  
21 capacity factor range.

22 And we believe if you look at the data,  
23 and you look at the cost effectiveness of serving  
24 that portion of the load curve, that cycling and  
25 peaking portion of the load curve, that what

1       you'll find is that it is, in fact more cost  
2       effective and more environmentally beneficial to  
3       rely on the existing fleet of resources.

4               So we would urge you, and we will  
5       provide you some specific language next week to go  
6       into the report that tries to clarify this  
7       distinction between the old and new units, and  
8       make clear for a particular type of service the  
9       California consumers, we think, would be better  
10      off relying to some degree, significant degree, on  
11      the existing units.

12             And really the key is back to the point  
13      earlier about the transparency in the market  
14      rules. We believe that it really ought to be done  
15      through a market-based process. And if we have  
16      transparent, open, clear market rules, then this  
17      process of turning over the existing fleet of  
18      resources and retiring the older, less efficient  
19      units over time and replacing them with new  
20      resources, that will occur in a very efficient way  
21      provided that the rules are set up appropriately  
22      in the first place.

23             And we would just urge you to consider  
24      incorporating language into the report that  
25      recognizes that tradeoff between old and new as

1 something that needs to recognize really the  
2 factual circumstances surrounding the existing  
3 emission rates for the units, and also the heat  
4 rates.

5 Now, let me turn just for a couple of  
6 minutes to the issue of resource adequacy. And  
7 Mr. Kelly earlier in his remarks noted that the  
8 Commission's report encourages minimum reserve  
9 margin requirements for load serving entities.  
10 And we certainly believe that that's an important  
11 requirement.

12 But we also believe that resource  
13 adequacy is a broader concept than that. And,  
14 again, this is one of these central market rules  
15 concepts that we would like to convey.

16 Resource adequacy includes not just from  
17 our point of view, not just minimum reserve  
18 requirements for load serving entities, but it  
19 also includes must-offer obligations on generators  
20 who have uncommitted capacity. So whether you're  
21 a cogenerator whose contract is expiring, or  
22 you're a merchant generator who currently doesn't  
23 have a contract with the state or a contract with  
24 the state that may be rolling off, a resource  
25 adequacy mechanism, we believe, should apply an

1 offer obligation to the load serving entities that  
2 would make those resources available under market-  
3 based type of conditions. So that's a really key  
4 piece of it.

5 And then also in terms of again the  
6 turnover of the fleet, if you have a resource  
7 adequacy requirement that establishes clear  
8 reserve margin requirements for load serving  
9 entities, and allows resources to compete to  
10 provide those services to the load serving  
11 entities, I think you'll see a much more rational  
12 turnover of the fleet.

13 Because we are at a point where many of  
14 the older gas units are, in fact, 40 and 50 and  
15 even older than that. So they should roll off and  
16 be replaced over time. But what we find is that  
17 today in the absence of any kind of formalized  
18 resource adequacy mechanism, we find ourselves  
19 struggling with should we invest, for example, in  
20 a unit that's 50 years old and preserves, you  
21 know, 250 megawatts of capacity, or should we  
22 acknowledge that that is really outside of what's  
23 required for resource adequacy and dedicate the  
24 capital that we would otherwise spend on those  
25 units to units that are, in fact, needed for

1 reliability.

2 And so the absence of the formalized  
3 resource adequacy mechanism, we believe, creates  
4 uncertainty about what the true resource condition  
5 of the state is. And if we had that clear set of  
6 guidelines, and the utilities were required to  
7 follow it, the generators were required to offer  
8 the resources consistent with that mechanism, I  
9 believe we would achieve an optimal amount of  
10 reserves in the system.

11 We wouldn't be long; we wouldn't be  
12 short; but we would obtain that optimal mix. And  
13 we would do so also with an optimal mix of  
14 existing and new resources.

15 So, we really believe resource adequacy  
16 is key. And what we provide to you next week in  
17 our written comments, what we will be doing is  
18 just suggesting that you include a separate  
19 section in the report to acknowledge just the  
20 concept of resource adequacy.

21 Because we don't even see the term used  
22 in the report, and yet the CEC Staff, for example,  
23 has been very active in the CPUC's procurement  
24 proceeding. In there the CEC has really embraced  
25 the concept of resource adequacy. And so, too,



1 have the utilities. So I think there's an  
2 emerging, more than an emerging, it essentially  
3 exists among the participants, at least in the  
4 CPUC case, that this concept of resource adequacy  
5 really is fundamental. And yet it's missing  
6 entirely from the report.

7 And just a couple more remarks about it.  
8 I think the reason that it can be so important is  
9 really a central organizing policy for you. Is  
10 not just with respect to the turnover of the  
11 existing fleet, and doing that in a rational way.

12 But the issue of open access or direct  
13 access or core/noncore, if we had a well designed  
14 resource adequacy mechanism in place where we had  
15 minimum reserve margin obligations across both the  
16 core and noncore sectors, I think it would provide  
17 a very great degree of confidence to you, as  
18 regulators, that in the noncore sector, for  
19 example, there would be resource adequacy.

20 We're not going to get into a situation  
21 where we run short of capacity for the noncore,  
22 because they're simply not subject to the same  
23 sorts of rules that the core customers would be  
24 who are receiving service from the utilities.

25 So we think this issue about how do we

1 go to direct access and allow retail choice to  
2 take place, and yet still insure that we've got  
3 adequate resources and it's done on a forward-  
4 looking basis, we believe a well designed resource  
5 adequacy mechanism really provides a foundation  
6 for that.

7 And then just one final point on the  
8 issue of renewables, which is such an important  
9 area, as we've heard from previous speakers, and  
10 the idea of going to 20 percent of the resource  
11 mix by 2010 is a very ambitious and excellent  
12 idea.

13 And through resource adequacy I think  
14 what you would find is because so much of that  
15 renewable portfolio is intermittent, it's wind and  
16 solar; and it has that intermittent  
17 characteristic, it's going to be really important  
18 if that is 20 percent of the overall resource  
19 mix.

20 It really implies new challenges in  
21 terms of what kind of backup capacity, reserve  
22 capacity do we need to have available on the  
23 system if we're going to have a substantial  
24 portion of the overall mix be served through  
25 intermittent resources.

1           So, again, in the area of renewables in  
2       dealing with the intermittency of those kinds of  
3       resources, we think a well designed resource  
4       adequacy mechanism will allow you to look at the  
5       resource plans of the utilities and clearly  
6       evaluate what portion of their particular  
7       portfolio is, in fact, firm capacity that can be  
8       counted on toward that minimum reserve margin  
9       requirement.

10           So there are lots of benefits. And we  
11       hope that you'll consider, once you take a look at  
12       the language we provide, consider including a  
13       section on resource adequacy.

14           Those are our comments today. And,  
15       again, we thank you for the opportunity to speak.  
16       And I'd be happy to answer any questions you might  
17       have.

18           PRESIDING MEMBER BOYD: Thank you, Mr.  
19       Kebler. I note that as late as yesterday  
20       Commissioner Geesman and I were talking about this  
21       issue of existing generation resources and the  
22       subject of resource adequacy. So it's something  
23       that's caught our attention.

24           Commissioner Geesman, any questions or  
25       comments?

1           COMMISSIONER GEESMAN: Up until now in  
2       this process, at least internal to the Commission,  
3       I've tried to stay out of the literary criticism  
4       aspect of the report, and focus more on what the  
5       actual recommendations are.

6           But because Commissioner Boyd and I  
7       discussed this yesterday afternoon, I'll share  
8       with you at least what our staff shared with us.  
9       And that is we have focused our recommendations in  
10      this particular area in our briefs to the PUC.

11          And the draft, actually the several  
12      drafts of the report before this one was  
13      published, I think observed the notion that it  
14      would be a little inappropriate because of the  
15      timing of the PUC proceeding, the fact that we're  
16      in the briefing schedule now, for us to separately  
17      publish recommendations.

18          So our discussion of resource adequacy  
19      in the earlier draft of the report didn't have any  
20      recommendations, but did have a discussion.

21          When our editors, who attempted to put  
22      this in plain English, and they were working with  
23      documents, I think, that probably had 15 to 20  
24      different authors, when they went through and  
25      attempted to reduce it to a more manageable page

1 size, they intended to cut and slash sections that  
2 did not have recommendations associated with it.

3 But we recognized the importance of  
4 resource adequacy, and I think in revising the  
5 report it would be a good idea for us to  
6 acknowledge its significance.

7 It's going to be a central aspect of the  
8 PUC procurement decision that's made in December.  
9 And I think it's something that your comments are  
10 well directed to.

11 MR. KEBLER: Thank you very much.

12 COMMISSIONER GEESMAN: Thank you.

13 PRESIDING MEMBER BOYD: Thank you.

14 That, ladies and gentlemen, exhausts all the  
15 little blue cards I have up here. Is there anyone  
16 who desired to speak to us today who didn't get an  
17 opportunity because they didn't provide a blue  
18 card? Now would be the time to make that fact  
19 known.

20 Seeing no stir in the audience, then I  
21 would like to thank everybody for their input and  
22 their participation.

23 As you probably have picked up during  
24 the course of today's testimony, a lot of  
25 discussion is already starting to take place

1        amongst staff and the Commissioners about what  
2        we've heard to date, and some of the shortcomings,  
3        perhaps, of the report.

4                Not so much, as indicated, from lack of  
5        being interested in the subject, but from what I  
6        alluded to earlier, trying to boil 3000 pages down  
7        to 30 pages has resulted in a little slashing and  
8        burning of these various things.

9                So, a lot of the points you've made  
10       today you can rest assured will get discussed.  
11       Some of them will find their way into the final  
12       report, I'm sure.

13               So we very much appreciate the input.  
14       As I indicated before, we need affected public's  
15       and stakeholders' points of view in order to help  
16       us balance as best we can, our final report.

17               And in spite of my sparring with Mr.  
18       Sparano, I do take seriously the concerns that  
19       they have. He and I just had too much fun  
20       together over the past few months. I can't help  
21       myself sometimes.

22               In any event, I appreciate all the input  
23       that we've had today, and I again thank Kern  
24       County for their hospitality and the use of these  
25       very nice facilities. I'm sure the oil industry

1 will pay for them.

2 And with that, I think this hearing is  
3 adjourned. Thank you.

4 (Whereupon, at 12:40 p.m., the hearing  
5 was adjourned.)

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## CERTIFICATE OF REPORTER

I, JAMES RAMOS, an Electronic Reporter,  
do hereby certify that I am a disinterested person  
herein; that I recorded the foregoing California  
Energy Commission Hearing; that it was thereafter  
transcribed into typewriting.

I further certify that I am not of  
counsel or attorney for any of the parties to said  
hearing, nor in any way interested in outcome of  
said hearing.

IN WITNESS WHEREOF, I have hereunto set  
my hand this 13th day of October, 2003.

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